

ANNUAL REPORT AND FINANCIAL STATEMENTS 2010
GILDEMEISTER AKTIENGESELLSCHAFT

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GILDEMEISTER

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Preliminary Notes

GILDEMEISTER Aktiengesellschaft has no operative business but functions as the management holding company for the GILDEMEISTER group. The sales revenues shown for the parent company result almost exclusively from income from the exercise of the holding and service functions for the group as well as from rental income. The income situation of GILDEMEISTER Aktiengesellschaft differs from that of the group in terms of level and structure. It is essentially dominated by the control and profit and loss transfer agreements concluded with two domestic subsidiaries and the income and expenses resulting from the holding functions. The present management report refers exclusively to GILDEMEISTER Aktiengesellschaft as the parent company. The GILDEMEISTER group is represented in detail in our Annual Report 2010 and the Consolidated Financial Statements and Group Management Report contained therein, which were prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU.

Economic Situation and Business Development 2010

Overall Economic Development

The global economy experienced a strong upturn, which lost impetus during the course of the year. The strongest stimulus came from China and the Japanese economy also expanded significantly. Economic recovery in the USA was more moderate. This also applied to Europe, although differences between countries existed. Germany developed a comparatively high growth rate. According to provisional calculations by the Institute for World Economics (IfW) at the University of Kiel, total economic production worldwide increased by 4.8% (previous year: -0.9%).

Development of the Machine Tool Industry

International Development

The world market for machine tools – starting from a weak basis of comparison – again made positive development in 2010. The German Machine Tool Builders Association (VDW) calculated a growth in world consumption of 25% or € 8.9 billion to € 45.0 billion (previous year: € 36.1 billion). As a result, the industry is again marginally above 2005 levels. The world machine tool market has also been affected by huge structural changes in Asia, particularly in China. The Asian share of world consumption amounted to almost 62%. America and Europe have suffered a significant loss of world market share in the last ten years. Asia is leading the global economic recovery process – demand has again grown dynamically (+25%). By far, the greatest number of machine tools was purchased in China. China again is the largest sales market at € 15.9 billion and a share in world

consumption of 35% (previous year: 30%). In America consumption rose (+18%). In Europe the development slightly declined (-3%). Germany is in second place with € 3.7 billion (change from previous year: -11%) and a world consumption share of 8%. The following places were taken by South Korea (consumption: € 3.2 billion, change to previous year: +67%, world consumption share: 7%) and Japan (€ 2.9 billion; +24%; 6%). Places five to ten were taken by the USA (€ 2.3 billion, -3%, 5%), Italy (€ 2.2 billion, +7%; 5%), Brazil (€ 1.3 billion; +25%; 3%), India (€ 1.2 billion; +33%; 3%), Taiwan (€ 1.2 billion; +82%; 3%) and Russia (€ 0.9 billion; -2%; 2%). The ten most important consumer markets represent 77% of global machine tool consumption (previous year: 76%).

German Machine Tool Industry

The German machine tool industry also achieved a turnaround in 2010; altogether, it again recorded a strong increase in order intake and a rise in exports. However, there was a further decline in production as a result of high throughput times in the project business area and a high percentage of special machines for the majority of German manufacturers. Order intake increased to € 11.5 billion or by 85% (previous year: € 6.2 billion). Domestic demand rose by 75% (previous year: -61%). International demand increased by 90% (previous year: -50%). The ifo business climate index for the manufacturing industry reflected the optimistic mood. The main consumer industries (engineering, road vehicle construction and electrical engineering) recorded significantly higher values than the previous year.

Income, Financial and Net Worth Position

The GILDEMEISTER Aktiengesellschaft result was primarily determined by income from financial assets (€ 29.7 million), comprising profit and loss transfers from DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER amounting to € 30.2 million (previous year: € 24.6 million), GILDEMEISTER Beteiligungen AG amounting to € -1.3 million (previous year: € -8.2 million) and investment income from Mori Seiki amounting to € 0.8 million (previous year: € 0.5 million). GILDEMEISTER Aktiengesellschaft closes the financial year 2010 with an annual profit of € +1.1 million (previous year: € -1.7 million). Under consideration of the profit carried forward of € 1.9 million, the GILDEMEISTER Aktiengesellschaft recorded net retained profits on 31 December 2010 of € 3 million (previous year: € 6.5 million).

In the reporting year, sales revenues (group cost allocations and rent) amounted to € 10.6 million (previous year: € 11.4 million). Other operating income increased by € 5.4 million to € 13.6 million in the same period. This difference is mainly due to currency and capital gains of € +6.6 million. BilMoG (German Accounting Law Modernisation Act) was applied for the first time, resulting in capital gains of € 5.1 million.

Expenses incurred for purchased services mainly cover maintenance of the production halls at the Bielefeld site. At € 1.5 million, this is around € 0.8 million lower than the previous year (€ 2.3 million).

In the reporting period, employee expenses rose by € 3.6 million to € 16.6 million (previous year: € 13 million). This increase results primarily from a non-recurring expense amounting to € 2.9 million. Depreciation of € 1.6 million (previous year: € 1.5 million) increased only marginally in comparison to the previous year.

Other operating expenses amounted to € 22.8 million and were thereby € 4.1 million above the previous year's level (€ 18.7 million). The substantial changes concern foreign currency and exchange losses (€ +3.9 million). Exchange rate losses amounted to € 5.3 million due to BilMoG (German Accounting Law Modernisation Act) being applied for the first time. Foreign currency and exchange losses should be viewed in conjunction with currency and capital gains.

Income from investments increased from € 16.9 million in the previous year to € 29.7 million in the reporting year. Of this, € 28.9 million resulted from profit and loss transfer agreements and € 0.8 million from the distribution of profits from the 4% shareholding in Mori Seiki Co., Ltd.

The net finance result amounted to € -12.6 million (previous year: € -0.1 million). It changed due to considerably worse interest rate conditions.

The tax yield recorded of € 1.5 million, due to first-time application of the German Accounting Law Modernisation Act (BilMoG), resulted primarily from deferred tax assets on interest carryforwards due to the regulation on the German interest barrier amounting to € 2.8 million, as well as the capitalisation of deferred taxes on loss carryforwards amounting to € 0.9 million and was offset by current tax expenditure of € 2.2 million (previous year: tax expenditure of € 2.3 million).

The increase in tangible fixed assets is primarily due to investments in an Energy Solutions Park at the Bielefeld site in the amount of € 823 κ and the acquisition of a new thermal power station amounting to € 628 κ.

The increase in financial assets of € 7.8 million results primarily from the 33% share of MG Finance GmbH amounting to € 5 million and a capital increase of € 2.8 million at DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER.

Current assets increased in comparison to the previous year by a total of € 66.9 million to € 430 million. The increase in liquid funds of € 30.5 million and also in receivables from affiliated companies of € 32.6 million significantly contributed to this.

Other provisions increased, in comparison to the previous year, by € 0.8 million to € 12.2 million. Significant provisions involved legal and consultancy expenses, employee provisions and repair provisions.

GILDEMEISTER covers its capital requirements with the operating cash flow and by taking up short and long-term financing. The essential components of this are syndicated loans, borrowers' notes and factoring agreements. We have taken up a syndicated loan amounting to € 175.0 million and a loan period until June 2011. A further syndicated loan amounts to € 211.9 million and a loan period until the end of 2012. This loan has one tranche amounting to € 57 million and the second tranche amounting to € 154.9 million that cannot be drawn upon until June 2011 and serves to refinance the loan of € 175.0 million that expires in June.

Furthermore, GILDEMEISTER has taken up borrowers' notes amounting to a total of € 201.5 million, which are due in May 2013.

Since 2009, GILDEMEISTER does not have a corporate rating, as we do not have any outstanding capital market financing, which require such a rating, involving considerable costs.

In addition to the syndicated loans and borrowers' notes, we also have several long-term loans amounting to € 727 κ (previous year: € 802 κ).

Our financing includes standard agreements for compliance with certain key figures (covenants). At the end of 2010, the banks agreed upon a one-off increase of a covenant for these loans within the scope of a waiver request.

GILDEMEISTER requires lines of guarantee for its operational activities, in order to issue payment guarantees and warranties. This financing mix provides us with sufficient credit lines, which we can make available for the necessary liquidity for seasonal fluctuations within the industry, for growth within the machine tool business and for the project business requirements of "Energy Solutions".

GILDEMEISTER group financing is carried out centrally via GILDEMEISTER Aktiengesellschaft. Only when group financing is not advantageous due to the legal framework, is local financing used in individual cases. Cash pooling is used to utilise liquidity surpluses of group subsidiaries cost-effectively.

Net financial liabilities (liabilities to banks less bank balances and cash balances) decreased, in comparison to the previous year, by € 22 million to € 211.6 million (previous year: € 233.6 million).

Total assets as of 31 December 2010 rose by 11.1 % to € 894.3 million (previous year: € 804.7 million). The equity ratio amounts to 41.5% (previous year: 45.3%).

Dividend

The Executive Board and Supervisory Board will propose to the 109th Annual General Meeting, held on 13 May 2011, that no dividend be distributed for financial year 2010.

Employees

As of 31 December 2010, GILDEMEISTER Aktiengesellschaft was divided into four executive units, which are organised as follows:

- _ Key Accounting / Personnel / Purchasing / Auditing / Compliance / Public and Investor Relations,
- _ Controlling / Finances / Accounting / Tax and Risk Management,
- _ Technology and Production and
- _ Sales and Service / Information Technology (IT)

On 31 December 2010, GILDEMEISTER Aktiengesellschaft had 64 employees, four employees more than on 31 December 2009.

Research and Development

GILDEMEISTER Aktiengesellschaft is responsible for the research and development strategy. Research and development activities are conducted at group company level.

Corporate Governance Statement pursuant to Section 289a HGB (German Commercial Code)

Corporate Governance

At GILDEMEISTER, good corporate governance has always been given high priority and is a core component of our corporate management and all corporate areas. For the Executive Board and Supervisory Board, corporate governance means managing and controlling the enterprise responsibly and transparently. Our common goal is to increase the value of the enterprise in a sustainable way. Our internal guidelines are also orientated towards these rules and policies. For years, GILDEMEISTER has been complying with the recommendations of the German Corporate Governance Code and until the new version entered into force on 26 May 2010, complied with all the recommendations with one exception. The Executive Board and Supervisory Board issued the following compliance statement in December 2010. This statement – and also the compliance statement from previous years – can be accessed on our website www.gildemeister.com:

- “1. Since the last declaration of conformity of December 2009, GILDEMEISTER Aktiengesellschaft complied with the recommendations of the government commission’s German Corporate Governance Code in the version of 18 June 2009, published in the electronic German Federal Gazette on 5 August 2009, until the entering into force of the latest version on 26 May 2010 with the following exception:
- _A Supervisory Board member holds a position at a major competitor of the enterprise. An acting member of the Supervisory Board since November 2009, this person is the president of a foreign manufacturer of machines for metal-cutting. The special expertise of this Supervisory Board member is of particular value for the enterprise and, in particular, for the work of the Supervisory Board.
 - _Appropriate measures are taken by the enterprise to counter any conflicts of interest.
2. GILDEMEISTER Aktiengesellschaft has complied with the recommendations of the “government commission’s German Corporate Governance Code” in the version of 26 May 2010 since its publication in the electronic German Federal Gazette on 2 July 2010 and will continue to comply with it in the future with the following exception:
- _A Supervisory Board member holds a position at a major competitor of the enterprise. An acting member of the Supervisory Board since November 2009, this person is the president of a foreign manufacturer of machines for metal-cutting. The special expertise of this Supervisory Board member is of particular value for the enterprise and, in particular, for the work of the Supervisory Board.
 - _Appropriate measures are taken by the enterprise to counter any conflicts of interest.”

GILDEMEISTER has D&O insurance (manager liability insurance) and legal costs insurance for all members of the Supervisory and Executive Boards, managing directors and senior managers. The D&O insurance provides for an appropriate deductible for the purposes of the Act on the Appropriateness of Management Board Remuneration (VorStAG).

**Description of the operating principles of the
Executive Board and Supervisory Board and their committees
Responsible management of opportunities and risks**

The Executive Board and Supervisory Board are regularly informed of any current risk situations for the enterprise and individual divisions. For GILDEMEISTER, the responsible handling of risks by the company is part of good corporate governance. GILDEMEISTER identifies and monitors significant opportunities and risks regularly with the aid of a systematic risk management system. The early-warning system for risks, set up by the Executive Board in accordance with Section 91 para. 2 AktG (German Stock Corporation Act), is examined by the annual auditors and continuously enhanced by GILDEMEISTER and adapted to changing conditions. More information on the opportunities and risk management system can be found in the section on “Opportunities and risk report” on page 16 et seq.

Cooperation between the Executive Board and Supervisory Board

To achieve the joint goal of increasing enterprise value sustainably, the Executive Board and the Supervisory Board work closely together. The Executive Board informs the Supervisory Board regularly, timely and comprehensively on all relevant issues with regard to business development, financial position and results of operations, corporate planning, as well as the risk situation, risk management and compliance. The Executive Board passes the quarterly and six months’ reports to the Supervisory Board, so that the latter can discuss them before publication. In particular, changes in targets or plans in the operating business and the strategic approach and further development of the enterprise are explained. The Articles of Association provide for any transactions of fundamental significance to be subject to the agreement of the Supervisory Board.

Avoidance of conflicts of interest

In making decisions and in connection with their functions, the members of the Executive Board and of the Supervisory Board may not pursue any personal interests or business opportunities that the company is entitled to, nor may they grant any unjustified benefits to any other person. Any potential conflicts of interest with respect to Executive Board or Supervisory Board members are immediately disclosed to the Supervisory Board and require its approval. The Supervisory Board reports any conflicts of interest and the handling of these to the Annual General Meeting. No conflicts of interest with respect to Executive Board and Supervisory Board members, to be reported to the Annual General Meeting, have been disclosed to the Supervisory Board. In the reporting year, there were neither conflicts of interest with respect to the members of the Executive Board nor with respect to those of the Supervisory Board.

Safeguarding the interests of the shareholders

Our aim is to ensure both the best possible transparency and timely communication to all target groups. Shareholders and potential investors can obtain information on the Internet at any time on the current situation of the company. On our website, www.gildemeister.com, we publish, both in German and English, press releases, business and quarterly reports as well as a detailed financial calendar. Through candour and transparency, the Executive Board and Supervisory Board aim to strengthen the confidence of our shareholders and investors, business partners and employees, as well as of the general public. For shareholders who are not able to attend the Annual General Meeting of Shareholders personally, we offer them the possibility of following the events of the Annual General Meeting in real time via the Internet.

Reporting and auditing of annual accounts

We have agreed with the annual auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, for the year under report that they shall inform the chairman of the Supervisory Board promptly of any grounds of exclusion or bias that may arise during the audit, in case these cannot be rectified. It has been further agreed that the auditor shall report promptly to the chairman of the Supervisory Board and chairman of the Finance and Auditing committee on all findings and events arising during the audit that are of significance for the duties of the Supervisory Board. Moreover, the auditor will inform the Supervisory Board of, or include in the auditing report, any facts found during the audit process that are inconsistent with the Declaration of Compliance with the German Corporate Governance Code para. 161 AktG given by the Executive Board and Supervisory Board.

Supervisory Board and Committees

Pursuant to the Articles of Association, the Supervisory Board comprises 12 members. In accordance with the German Co-Determination act, in addition to the six owners' representatives, six employee representatives, one of whom represents senior management, are appointed to the Supervisory Board. The term of office of the present Supervisory Board expires at the end of the Annual General Meeting of shareholders in 2013.

The members of the Supervisory Board are named in the details in the notes.

The Supervisory Board convened eight times in the financial year. The Supervisory Board also reports on the scope of its work in the Supervisory Board report in the group management report on pages 7 et seq.

In the financial year 2010, the Supervisory Board of GILDEMEISTER Aktiengesellschaft had five committees: the Finance and Auditing Committee, the Personnel, Nominations and Remuneration Committee, the Nominations Committee, the Technology and Development Committee and the Conciliation Committee. The Supervisory Board also reports on the scope of the work of its committees in the Supervisory Board report in the group management report on pages 7 et seq.

The group annual report is published on the internet at www.gildemeister.com.

Remuneration of the Executive Board and Supervisory Board

Pursuant to Section 285 (9a) of the HGB (German Commercial Code) and Clause 5.4.7 of the German Corporate Governance Code, we report on the remuneration of the Supervisory Board individually and broken down into components.

Remuneration of the Supervisory Board of GILDEMEISTER Aktiengesellschaft

The remuneration of the Supervisory Board is determined by the Annual General Meeting of shareholders and is regulated under Section 12 of the Articles of Association of GILDEMEISTER Aktiengesellschaft. The remuneration includes performance-related and one non-performance related component. The remuneration components not dependent upon performance include the fixed remuneration that each member of the Supervisory Board receives and remuneration for committee work. The performance-related component comprises a long term incentive (LTI), whose aim is to support sustainable value-based management.

In the financial year 2010, the fixed remuneration for each individual member of the Supervisory Board was € 24,000; the chairman received 2.5 times that amount (€ 60,000) and the deputy chairman 1.5 times that amount (€ 36,000). The fixed remuneration therefore totalled € 329,687 (previous year: € 335,605).

Remuneration for committee work amounted to a total of € 221,479 (previous year: € 221,211) and took into account the work carried out by the Finance and Auditing Committee, the Personnel, Nominations and Remuneration Committee, and the Technology and Development Committee. There is no remuneration for work carried out by the Conciliation and Nominations Committee, which is a sub-committee of the Personnel, Nominations and Remuneration Committee. The individual committee members each received € 12,000. The chairpersons of the committees also receives an additional fixed remuneration of a further € 12,000 and the deputy chairpersons € 6,000.

The performance-related remuneration component LTI is based on index-based target values. Earnings per share (EPS) are used for the performance-related key figure. The EPS is an established key performance indicator, which gives rise to a performance reference taking into account the respective share capital. It is calculated by dividing the annual profit, less the profit share of minority interests, by the weighted average number of shares. The LTI is variable, which means it is not secured remuneration. Again, the Supervisory Board chairman receives 2.5 times, and the deputy chairman 1.5 times, the remuneration of the other members of the Supervisory Board. The LTI is capped at the level of the respective fixed remuneration.

The LTI takes into account not only the reporting year but also the two preceding years. The key performance indicator is the mean average of the EPS values in the corresponding financial years. The LTI is only paid if the average EPS for the relevant three years amounts to at least € 0.15. For the financial year 2010 and two preceding years, the corresponding average EPS value amounted to € 0.69 (previous year: € 1.04). The LTI

calculated performance-based remuneration for the Supervisory Board totalled € 236,963 (previous year: € 335,605). The economic development is therefore reflected in the amount of these variable remuneration components. In 2010 the Supervisory Board remuneration was made up as follows:

REMUNERATION OF THE SUPERVISORY BOARD OF GILDEMEISTER AKTIENGESELLSCHAFT

	Fixed remuneration in €	Committee remuneration Finance & Auditing (F&A) in €	Committee remuneration Personnel Nominations & Remuneration (PNR) in €	Committee remuneration Technology & Development (T&D) in €	LTI in €	Total in €
Hans Henning Offen Chairman SB, Chairman PNR	60,000	12,000	24,000	0	43,125	139,125
Prof. Dr.-Ing. Uwe Loos Member SB until 31 March 2010 Chairman T&D until 31 March 2010	5,918	0	0	5,918	4,253	16,089
Ulrich Hocker Member SB as of 11 May 2010 Member PNR as of 14 May 2010	15,386	0	7,627	0	11,059	34,072
Günther Berger Member SB until 17 March 2010 Chairman F&A until 17 March 2010	4,997	4,997	0	0	3,592	13,586
Prof. Dr. Edgar Ernst Member SB as of 11 May 2010 Chairman F&A as of 14 May 2010	15,386	15,255	0	0	11,059	41,700
Dr.-Ing. Jürgen Harnisch Deputy Chairman T&D until 13 May 2010 Chairman T&D as of 14 May 2010	24,000	0	0	21,814	17,250	63,064
Dr.-Ing. Masahiko Mori	24,000	12,000	0	0	17,250	53,250
Prof. Dr.-Ing. Walter Kunerth Member PNR until 13 May 2010 Deputy Chairman T&D as of 14 May 2010	24,000	0	4,373	11,441	17,250	57,064
Norbert Zweng	24,000	12,000	0	0	17,250	53,250
Gerhard Dirr Deputy Chairman SB Deputy Chairman PNR	36,000	12,000	18,000	0	25,875	91,875
Wulf Bantelmann Member SB until 31 May 2010 Member T&D until 31 May 2010	9,929	0	0	4,964	7,136	22,029
Oliver Grabe Member SB as of 01 June 2010 Member T&D as of 29 Sep. 2010	14,071	0	0	3,090	10,114	27,275
Matthias Pfuhl	24,000	0	0	12,000	17,250	53,250
Harry Domnik Deputy Chairman F&A	24,000	18,000	12,000	0	17,250	71,250
Günther Johann Schachner	24,000	0	0	0	17,250	41,250
Total	329,687	86,252	66,000	59,227	236,963	778,129

In the financial year 2010 the total remuneration of the Supervisory Board amounted to € 778,129 (previous year: € 892,421).

Pursuant to Section 15a of the German Securities Act (WpHG), the members of the Supervisory Board, or other persons subject to reporting requirements, must disclose any acquisition or disposal of shares or related rights of purchase or disposal, such as options or rights that are directly dependent on the company's stock exchange price. We did not receive any **director's dealings notifications** in the year under report.

A company, which is monitored by a member of the Supervisory Board, holds a shareholding of 5% of total shares. The remaining members of the Supervisory Board together hold less than 1% of the total number of shares. No member of the Executive Board owns any GILDEMEISTER shares.

Remuneration of the Executive Board of GILDEMEISTER Aktiengesellschaft

The Supervisory Board is advised on and decides the remuneration of the Executive Board at the Supervisory Board plenary meeting.

Members of the Executive Board receive direct and indirect remuneration components, whereby the indirect remuneration components primarily consist of pension plan expenses. The direct remuneration of the Executive Board members of GILDEMEISTER Aktiengesellschaft contains fixed and variable components. The variable components comprise a short-term incentive (STI), an individual and performance-related remuneration and a long-term incentive (LTI). Both variable components are fixed in such a way that they represent a clear incentive for the Executive Board members to achieve their targets. In this way they support a sustainable and value-based management. The criteria for the appropriateness of the remuneration include in particular the tasks rendered by each Executive Board member, his personal performance and the performance of the Executive Board, as well as the company's economic situation, success and future prospects within the scope of its comparative environment.

Direct remuneration of the members of the Executive Board amounted to € 4,027 K (previous year: € 2,988 K). Of this amount, € 1,821 K were attributed to fixed remuneration (previous year: € 1,673 K), € 1,295 K to the STI (previous year: € 400 K). The STI therefore takes into account the target achievement of a positive result during the economic crisis. The LTI payout value amounted to € 0 K, as the EBIT margin fixed for the tranche 2008 – 2010 was not reached in allocation year 2010. Expenses for individual services rendered amounted to € 800 K (previous year: € 800 K). Payments in kind accounted for € 111 K (previous year: € 115 K).

In 2010 the direct remuneration of the Executive Board was distributed as follows:

EXECUTIVE BOARD DIRECT REMUNERATION						
	Fixed € K	STI € K	LTI € K	Performance remuneration € K	Payments in kind € K	Total € K
Dr. Rüdiger Kapitza, Chairman	800	476	0	300	41	1,617
Dr. Thorsten Schmidt	356	317	0	200	26	899
Günter Bachmann	356	317	0	200	29	902
Kathrin Dahnke (as of 20 May 2010)	161	185	0	100	6	452
Michael Welt (Chairman until 19 May 2010)	148	–	–	–	9	157
Total	1,821	1,295	0	800	111	4,027

The fixed remuneration is the contractually defined basic remuneration, which is paid in equal monthly amounts.

The STI is based on index-based target values. In the reporting year the earnings after taxes (EAT) provided the reference value used. The scale of the target values is redefined annually. In addition, the STI is capped at € 500 k for 2010. The cap is also fixed anew each year.

As a remuneration component with long-term incentive effect, the LTI combines the achievement of fixed targets in relation to the EBIT of the company with the performance of the GILDEMEISTER share. A cap has been set at twice the annual fixed salary of each Executive Board member per tranche for the year in which the award takes place. Should the EBIT of the allocation year not reach a minimum EBIT figure that is set anew upon every new awarding of a tranche, the LTI payment is not applicable.

The LTI involves a performance units plan, which is not associated with any dividend payments or voting rights. In addition, the units may not be traded nor sold to third parties. The performance units awarded at the beginning of each year have a term of three years or since 2009 a term of four years. There was no payment for performance units awarded following this model for the year 2008. No payment was made from the allocation, as the fixed EBIT margins were not reached. The performance units awarded for the financial year 2009 will be allocated on 31 December 2011 and, following the Annual General Meeting of Shareholders in 2012, will be paid out taking into account the EBIT target achieved in 2011 and the respective share price. The performance units awarded for the financial year 2009 will be allocated on 31 December 2011 and, following the Annual General Meeting of Shareholders in 2012, will be paid out taking into account the EBIT target achieved in 2011 and the respective share price.

On the basis of the provisions of the VorstAG (Act on the Appropriateness of Management Board Remuneration), the Supervisory Board passed a resolution in 2009 to prolong the term of the tranches from three to four years. In order to continue the incentive effect of the LTI, an additional tranche with a four-year term was awarded in 2009 to each Executive Board member. This tranche will be allocated in 2012 and paid out in 2013 following the Annual General Meeting of Shareholders.

The tranche awarded for the financial year 2010 will be allocated on 31 December 2013 and paid out in 2014 following the Annual General Meeting of Shareholders, taking into account the EAT (Earnings After Taxes) achieved on average over the last four years and the respective share price.

The following table shows the number of performance units awarded in 2008, 2009 and 2010, and the fair value of the LTI at the time it was granted to each member of the Executive Board.

TRANCHES OF THE LONG-TERM-INCENTIVE

	Tranche 2008 3-year term			Tranche 2009 3-year term		Tranche 2009 4-year term		Tranche 2010 4-year term	
	Number of perfor- mance units awarded	Fair value when awarded	Allocation amount for 2010	Number of perfor- mance units awarded	Fair value when awarded	Number of perfor- mance units awarded	Fair value when awarded	Number of perfor- mance units awarded	Fair value when awarded
	units	€ k	€ k	units	€ k	units	€ k	units	€ k
Dr. Rüdiger Kapitza, Chairman	10,422	159	0	28,209	207	20,790	141	37,879	559
Dr. Thorsten Schmidt	7,817	119	0	21,157	155	13,860	94	25,253	372
Günter Bachmann	7,817	119	0	21,157	155	13,860	94	25,253	372
Kathrin Dahnke (as of 20 May 2010)	–	–	–	–	–	–	–	13,889	205
Total	26,056	397	0	70,523	517	48,510	329	102,274	1,508

The individual performance remuneration takes into account the level of success of each Executive Board member as regards the attainment of individually set targets.

Both the STI and the LTI are variable, which means neither is a secure remuneration.

Remuneration in kind arises mainly from amounts for the use of company cars, which will be assessed in accordance with applicable tax regulations, and individual insurance contributions. Every member of the Executive Board is contractually entitled to remuneration in kind, which may vary depending on the personal situation and is subject to tax payable by each Executive Board member.

Pension commitments for members of the Executive Board are primarily implemented through a contribution-based pension plan. A defined-benefit pension commitment exists for the chairman of the Executive Board.

INDIRECT REMUNERATION FOR EXECUTIVE BOARD MEMBERS

	€ k
Dr. Rüdiger Kapitza, Chairman	309
Dr. Thorsten Schmidt	70
Günter Bachmann	90
Kathrin Dahnke	50
Michael Welt	143
Total	662

Provision expenses of € 309 κ (previous year: € 72 κ) arose for defined-benefit contribution commitment in 2010, whereby the total amount of provisions is € 3,941 κ. This value also includes the pensions for surviving dependants contained in the commitment.

The payments restricted to the defined contribution pension plan amounted in total to € 353 κ (previous year: € 253 κ). Due to the German Accounting Law Modernisation Act (BilMoG), an allocation amount of € 79 κ arose for defined-benefit contribution commitment. Total provision expenses for the previous year amounted to € 662 κ (previous year: € 325 κ). Advances to Executive Board members or Supervisory Board members were not granted. There was no share option programme or similar securities-based incentive system.

The companies of the GILDEMEISTER group did not pay any remuneration to board members for services personally rendered, in particular consulting and introduction services. Former members of the Executive Board and their surviving dependants received € 618 κ (previous year: € 604 κ) in pensions. The amount of the pension commitments for former members of the Executive Board and their surviving dependants amounted to € 6,043 κ (previous year: € 5,863 κ).

The employment relationship of Michael Welt was terminated as of 31 October 2010. For the period from the revocation of his appointment on 19 May 2010, he received the contractually set fixed remuneration of € 173 κ and € 5 κ payments in kind. Within the scope of the arranged settlement of the terms of employment, a payment amounting to € 2,900 κ was agreed. This amount takes into account the obligations and duties from the contract of employment and is both less than the capitalised remaining term of the contract and the average remuneration relating to two years.

Opportunities and Risk Reporting

Identifying and making use of opportunities early on without ignoring the risks – systematic opportunity and risk management has been an integral part of our corporate management for many years. This allows us to respond in an optimum manner and to initiate any measures necessary. GILDEMEISTER is offered various opportunities in its global corporate dealings, which are constantly risk-related. Our opportunities and risk management assists in recognising and evaluating these in good time. The Executive Board and the Supervisory Board are informed regularly about the current risk position of the group and of the individual corporate areas. Our opportunities and risk management system comprises five elements:

1. the company-specific Risk Management Manual, in which the system is defined,
2. a central Risk Management Representative, who is supported by a local Risk Representative from each group company, and who updates the risk management system (including software),
3. area-specific risk schedules, in which individual risks are quantitatively assessed and prioritised using a value-at-risk as a measure of risk,
4. the general internal divisional and cross-divisional reporting structure of the group, which is governed by thresholds and is also supported by ad hoc reports on significant risks,
5. the risk reporting system at group level and at individual company level.

The overall risk is determined by a risk simulation procedure, a so-called Monte Carlo simulation. In this way, it is possible to take into account the interaction between risks. The simulation includes both the individual risks of group companies and possible deviations from planning assumptions (of a positive and negative nature). The overall risk position determined by this simulation is used to calculate the equity requirement, which, with a given probability – the confidence level, is able to bear potential risk-related losses. GILDEMEISTER's equity exceeds the defined overall risk position with a probability level of 97.5%. The risks are therefore manageable and the continued existence of the GILDEMEISTER group as a going concern is not at risk from today's perspective. In comparison to the last reporting on the third quarter 2010, the risks have decreased.

Opportunity Management System (CMS)

Opportunities are identified and analysed within the opportunity and risk management system also by simulating positive deviations from planning assumptions. The Marketing Information System (MIS) identifies significant individual opportunities by recording customer information globally and evaluating market and competition data. Using this as a basis, we measure, assess and check all sales and service activities and other measures for effectiveness and efficiency. In this way, we are able to make short and mid-term forecasts on expected customer orders per machine type and sales area.

GILDEMEISTER Aktiengesellschaft participates in the opportunities of its subsidiary as a holding company. If it succeeds in exploiting opportunities, this has a positive effect on the income from financial assets and therefore on the operating result of GILDEMEISTER Aktiengesellschaft.

Risik Management System (RMS)

The Risk Management System at GILDEMEISTER is structured in such a way that significant risks must be systematically identified, assessed, aggregated, monitored and notified. The risks in the individual company divisions are identified in this way every quarter and the risk potential that is determined as a result is analysed and evaluated using quantitative indicators. In doing so, measures to reduce risk are also taken into consideration and any risks that may endanger the enterprise as a going concern are immediately notified outside the regular reporting schedule. We determine the individual local and central risks as well as the effect on the group, in order to present the overall risk situation of the group:

- _ Local risks are individual risks that the group companies are exposed to and that can be assessed locally.
- _ Central risks are risks that, at least in part, can only be assessed centrally. These include, for example, risks arising from group financing.
- _ Group effects usually arise from consolidation requirements; these include, for example, the double counting of risks, which are then correspondingly adjusted.

The **accounting-related internal control system** is part of the overall internal control system (IKS) of GILDEMEISTER Aktiengesellschaft and is embedded in the risk management system throughout the enterprise. It includes not only the organisation, but also the control and monitoring structures to ensure the recording, preparation and evaluation of business accounting and its ultimate inclusion in the IFRS financial statements. The analyses carried out by risk management contribute to identifying risks that may have an effect on financial reporting and to introducing measures to minimise these risks.

The accounting-related internal control system includes basic principles, procedures and measures to ensure that accounting principles are adhered to in group accounting. In this respect, we analyse new legislation, accounting standards and other communiqués with respect to their effect on the consolidated financial statements. Throughout the group, all relevant regulations are encoded in guidelines, such as the accounting guidelines, for example. Together with the financial statements calendar, which is applicable throughout the group, these guidelines provide the basis for the process of drawing up the financial statements. Local regulations exist, which also have to be aligned with group accounting. This also includes complying with the accounting requirements of the German Commercial Code. If required, GILDEMEISTER uses external service providers, for example for the measurement of pension obligations. The employees who are involved in preparing the financial reports are given regular training. The control system covers both preventive activities and those intended to reveal any inconsistencies; this includes plausibility testing, the separation of functions and dual control. In addition, the analyses carried out by risk management contribute to identifying risks that may have an effect on financial reporting and to introducing measures to minimise these risks.

Financial risks arise, inter alia, out of our international activities. We hedge currency-related risks through our currency strategy. More detailed information in this respect can be found in the notes on page 31. Given our hedging, we consider the likelihood of currency-related risks to be low. The essential components of GILDEMEISTER's financing are syndicated loans, borrowers' notes and the receivables sales programmes. There is no risk of interest rate changes from the borrowers' notes as a fixed interest rate has been secured by means of a hedging instrument (swap). All financing agreements include an agreement to comply with standard covenants (key indicators). For non-compliance with a covenant, where this could lead to planning changes, the banks have the right to reassess the financing agreements. GILDEMEISTER liquidity is sufficiently assessed. A risk could arise from the timing of payments in the project business. The agreed financing scope can absorb any possible time delays that are identifiable today. Any possible damages amount in total to around € 24 million. The probability of occurrence of any damages is low.

Risks with respect to the assets of GILDEMEISTER Aktiengesellschaft arise mainly through the accounting and assessment of financial assets. Financial assets are accounted for at purchase cost or with the lower of fair value. The value retention of financial assets is determined annually with the aid of the capitalised income value calculation, which is based on the budget overview of the investment companies. Due to the values determined, there was no need for devaluation at the reporting date. In the event that the planned results are not achieved, devaluation to the lower of fair value may be required. The present budget overview does not provide any reason for impairment in 2010. Insofar as deferred tax assets on loss or interest carryforwards were not value adjusted, it is assumed that in the planning period this tax reduction potential was made use of by taxable income. If additional tax claims should be higher than expected or the usability of loss and interest carryforwards not possible, this could have a negative effect on the net assets, financial position and operating results of GILDEMEISTER. There is also a risk of additional tax claims from current audits. In total, possible damages from tax risks are estimated at € 4 million with a low probability of occurrence

The risks are therefore controllable and the continued existence of the GILDEMEISTER group as a going concern is not at risk from today's perspective.

Statements in accordance with Section 289 paragraph 4 German Commercial Code (HGB) as amended by the Takeover Directive Implementation Act

Under Section 289 paragraph 4 no. 1 HGB

The registered capital of GILDEMEISTER Aktiengesellschaft amounts to € 118,513,207.80. It is divided into 45,582,003 owner shares with an accounting par value of € 2.60 per share.

Under Section 289 paragraph 4 no. 6 HGB

With respect to the appointment and dismissal of members of the Executive Board, reference is made to the statutory provisions in Sections 84 and 85 of the German Companies Act (AktG). Moreover, this authority is specified to that effect in Section 7 para. 2 of the Articles of Association of GILDEMEISTER Aktiengesellschaft as amended in May 2010, by which the Supervisory Board appoints the members of the Executive Board, determines their number and assigns their duties. The provisions on amendments to Articles of Association are regulated in Sections 133 and 179 of the German Companies Act in conjunction with Section 15 (4) of the Articles of Association.

Under Section 289 paragraph 4 no. 7 HGB

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital by up to € 59,256,600 in nominal terms during the period until 13 May 2015 by issuing new owner shares for contributions in cash and / or in kind (authorised capital).

Moreover, the company is authorised to purchase its own shares up to a pro rata amount of just under 10% of the registered capital, this corresponds to € 11,851,321. This authorisation is intended to place the company in a position of having its own shares available at short notice, without having to make use of the stock market, in order to offer these shares to a seller in return for the acquisition of entities or investments in other entities.

The Executive Board is authorised to issue shares to company employees and companies affiliated with the company with respect to a partial amount of € 5,000,000. Shareholders' statutory subscription rights are excluded to this extent.

In addition, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude the shareholders' statutory rights in certain cases that are stipulated in detail in the Articles of Association.

Moreover there has been a contingent increase in the registered capital up to a further € 37,500,000 through the issue of up to 14,423,076 individual shares in the name of the holder (contingent capital I). The conditional capital increase is to be effected only insofar as warrant or convertible bonds are issued or guaranteed on the basis of the authorisation resolution of the Annual General Meeting of Shareholders from 14 May 2004, in the period until 31 March 2009 and the holders of warrant or conversion rights exercise their right to conversion or any conversion obligation or obligation to exercise an option under the aforementioned bonds are fulfilled.

Under Section 289 paragraph 4 no. 8 HGB

The main agreements, which are subject to a change of control condition as a result of a takeover offer, are syndicated loan agreements of € 175,000 K and € 211,900 K and the borrower's notes with a total volume of € 201,500 K of GILDEMEISTER Aktiengesellschaft. In the event of a change of control (acquisition of 25% or more of the voting rights), the repayment of the syndicated loans (if necessary, also in part payments) or the repayment of the borrower's notes may be requested.

For more details we refer to the corresponding information in the Notes.

In addition, the legislator has resolved that the Executive Board shall issue an explanatory report on the information given pursuant to Section 289 paragraph 4 HGB:

As at 31 December 2010, the registered capital of the company amounts to € 118,513,207.80 and is distributed in 45,582,003 individual shares in the name of the holder. Each share has a voting right and is the determining factor for the share of profits.

The company is managed by the Executive Board and is represented by the Executive Board towards third parties. The appointment and revocation of appointment of members of the Executive Board is the responsibility of the Supervisory Board pursuant to Section 84 of the Companies Act (AktG).

The most recent amendment to the Articles of Association took place at the 108th Annual General Meeting of Shareholders on 14 May 2010, on this occasion Articles 2, 5, 14 and 15 of the Articles of Association were amended.

In the reporting year the Executive Board did not exercise the existing authorisation.

The conditions for a change of control comply with the customary agreements. They do not lead to an automatic termination of the above-referred agreements but, in the event of a change of control, merely grant our contractual partners the possibility of terminating these, if necessary.

Supplementary Report

No events subject to reporting requirements have occurred in the period since the start of the new financial year until the date of this Management Report.

On 15 March 2011 with the consent of the Supervisory Board, the GILDEMEISTER Executive Board resolved to carry out a capital increase with investment from Mori Seiki. Within the framework of this capital increase, the company's registered capital will be increased, in part by the use of authorised capital, by € 11,851,320 through the issue of 4,558,200 new, no-par value bearer shares (no-par value shares) in exchange for cash. The ten percent capital increase will be carried out with the exclusion of subscription rights for existing shareholders. The new shares from the capital increase were subscribed by Mori Seiki. The placement price amounted to € 18.22 per new share; this corresponds to a premium of 27% measured against the volume-weighted average price of the GILDEMEISTER share on the date of the resolution or 20% measured against the volume-weighted average of the last ten trading days.

It is intended to carry out a second capital increase promptly with the participation of all shareholders (subscription rights capital increase). Presumably it would comprise 20% of the then increased registered capital. By using authorised capital, the registered capital will be increased by € 26,072,904 through the issue of 10,028,040 new no-par value bearer shares (no-par value shares) in exchange for cash.

The shares from both capital increases will be fully entitled to dividends from 1 January 2010. It is intended to quite predominantly use the net proceeds from the new issue to reduce financial liabilities and in this way to strengthen the GILDEMEISTER group's equity basis. Moreover, the remaining part of the net proceeds from the issue of the new shares shall be to promote growth of the "Machine Tools" core business area and in "Services" as well as to build up the "Energy Solutions" segment.

Detailed information on the share options capital increase and on the share options price will be given, amongst others, in a securities prospectus, which GILDEMEISTER Aktiengesellschaft will publish following approval by the German Federal Financial Supervisory Authority. In accordance with legal stipulations, we will also announce the share options offer in the pertinent official journals of the stock exchange for company announcements and in the electronic Federal gazette.

Forecast Report

According to economic experts, the economic upturn will continue at a slower rate in the current financial year. Current forecasts for the machine tool industry are assuming further growth for 2011. The German Machine Tool Builders Association (VDW) is expecting global consumption to rise by 20% and even by 30% in Germany. Overall economic development will continue its growth trend in 2011, however its' dynamic will be less pronounced. The Institute for the World Economy (IfW) forecasts an increase in global gross domestic product of 3.6% in 2011 and a positive increase of 4% for 2012.

GILDEMEISTER will continue to expand its global presence in major markets. The cooperation with Mori Seiki, in particular, contributes significantly towards this in the Asian and American markets. Our many years of experience, extensive technological know-how and innovative strength mean that we will continue to maintain a leading position amongst the leading manufacturers of cutting machine tools. As a technology group, GILDEMEISTER considers innovative ideas and new directions in machine technologies, services and software products to be important key factors in ensuring the future of the company.

We see future markets with growth potential in the BRIC countries, in particular. The actual forecast of the British economic research institute Oxford Economics expects for these four markets with a growth rate of 18% and a share in the world consumption of about 42%. With an increase of order intake of more than 25% GILDEMEISTER is planning to participate in this growth above average. We will further strengthen sales and marketing in Brazil, Russia, India and China and consolidate our competitive position there. We will pool our strengths and place a strong focus on growing sales segments like Aerospace, Medical engineering and Regenerative energy. In the first quarter of 2011, we plan to expand our cooperation with Mori Seiki in the sales and service areas to African markets and also Mexico.

GILDEMEISTER is optimistic about financial year 2011. We are expecting further growth in the global demand for machine tools and in the service business. The "Energy Solutions" business sector should also develop in a positive direction. Our aim for the entire year is to achieve an order intake exceeding € 1.6 billion and a sales revenue exceeding € 1.5 billion. GILDEMEISTER is strategically well-placed for renewed profit-orientated growth. We are expecting substantial growth of EBT and annual net profit. Due to positive business and operating profit prospects, we plan to make a dividend payout for financial year 2011. We are also expecting positive, dynamic developments in all our business segments. We are anticipating yet another increase in order intake, sales revenue and operating result.

A. General Declaration

The Annual Financial Statements of GILDEMEISTER Aktiengesellschaft for the year ending 31 December 2010 were prepared in compliance with the regulations stipulated in the German Commercial Code (HGB) and the German Companies Act (AktG). The form of the previous year's statement, particularly the subdivision of the statement of financial position and the comprehensive income statement, has been retained. The new accounting rules in accordance with the German Accounting Law Modernisation Act (BilMoG) were applied as of 1 January 2010. The previous year's figures were not adjusted.

B. Accounting and Valuation Principles

The intangible assets and tangible fixed assets were shown at their acquisition costs, reduced by scheduled depreciation / amortisation. For depreciation the straight line method was applied in accordance with useful life expectancy.

USEFUL LIFE OF ASSETS

Intangible assets	3 to 4 years
Office and factory buildings	10 to 50 years
Factory and office equipment	5 to 13 years

Depreciation of additions to intangible assets and fixed assets was carried out in the year of acquisition pro rata temporis according to straight-line method depreciation. Additions with procurement costs of € 150 to € 1,000 were combined in a compound item and depreciated over five years. The method of depreciation has not changed since the previous reporting period. The rates of depreciation / amortisation also remained unchanged with respect to intangible assets, office and factory buildings, and factory and office equipment. Financial assets are recognised on the statement of financial position at their acquisition costs or the lower fair value.

Receivables and other assets with a term of up to one year were recognised at face value, receivables and other assets with a term of more than one year were recognised in the statement of financial position at their present value. Receivables in foreign currencies with a term of one year or less were translated at the exchange rate at the reporting date. The valuation of internal and external derivatives was carried out at market value.

The valuation of company pension provisions was carried out for the first time on 01.01.2010 on the basis of the German Accounting Law Modernisation Act (BilMoG). The valuation was carried out using the "Projected Unit Method" (PUC Method) with an assumed rate of interest of 5.15% p.a. (previous year: 6%). For this purpose, the reference tables by Prof. Dr. Klaus Heubeck that were published in July 2005 were used as a basis. The pensions are not insured by an external pension fund. Provisions for obligations arising from partial

retirement agreements include expenses for wage and salary payments to employees during the pre-retirement lay-off phase and additional compensation. Furthermore, the provision comprises accumulation benefits which, on the basis of a collective pay agreement or a works agreement, the employer cannot avoid. These provisions are accrued proportionately from the start of the active phase of the partial retirement and are measured at present value taking as a basis a discount rate of 5.15% (previous year: 5.5%). Partial retirement claims are safeguarded against possible insolvency within the framework of a double fiduciary relationship. For safeguarding, liquid funds are transferred to a fiduciary association and offset with the provision for partial retirement. The remaining provisions were assessed so that they take into account all identifiable risks and contingent obligations. The valuations were made on the basis of proper commercial judgement. In each case the anticipated cost of fulfilment was taken into account. Provisions for employee anniversary bonuses were discounted at an interest rate of 5.15% p.a. (previous year: 5.5%).

In recording valuation units for foreign currency hedges, as of this financial year the gross method is used. In previous years the net method was applied.

Liabilities are assessed at their settlement values.

C. Notes to individual items in the Statement of Financial Position

Assets

The movements of the individual fixed assets are set out in the fixed-asset movement schedule, which is attached.

- | | |
|---|---|
| 1 INTANGIBLE ASSETS
AND FIXED ASSETS | The value shown for industrial property rights and similar rights includes mainly data processing software. Land and buildings are mortgaged for the security of long-term bank loans. |
| 2 FINANCIAL ASSETS | <p>The changes in financial assets of GILDEMEISTER Aktiengesellschaft are set out in the supplement to the statement of financial position. The companies included in the “Shares in affiliated companies” account, and the corresponding information on principal places of business, equity capital, capital shares and results as of 31 December 2010 are set out in a separate summary at the end of the Notes.</p> <p>In April 2010, GILDEMEISTER Aktiengesellschaft purchased 33% of MG Finance GmbH at the acquisition price of € 5,049 K. Together with our cooperation partner, Mori Seiki, our aim is to provide our customers with perfect, tailor-made financial solutions which are country-specific. In September 2010, GILDEMEISTER Aktiengesellschaft made a real capital increase in the capital reserve of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER amounting to a total of € 2,800 K. These deposits increase the net book values of investments by the appropriate amount. No impairments of financial assets were made.</p> |

GILDEMEISTER Aktiengesellschaft has concluded control and profit and loss transfer agreements with the following companies:

- _ GILDEMEISTER Beteiligungen AG,
- _ DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER.

3 RECEIVABLES AND OTHER ASSETS Amounts owed by affiliated companies of € 344,052 K (previous year: € 311,402 K) are primarily due to profit and loss transfer agreements, and costs and finances allocations. Other assets amounting to € 8,317 K include, amongst others, tax refund claims of € 4,140 K, which are primarily due to value added tax refund claims (previous year: € 1,706 K).

Other assets to a value of € 123 K (previous year: € 2,354 K) have a residual term of more than one year.

4 CASH ASSETS, BANK BALANCES The statement pertains mainly to bank balances and cash assets.

5 DEFERRED CHARGES The deferred charges relate to payments amounting to € 42 K (previous year: € 55 K) before the end of the reporting period, which represent expense for the following year.

6 DEFERRED TAX ASSETS Deferred tax assets totalling € 13,083 K arise from temporary differences in the value between commercial and tax bases amounting to € 6,652 K. In addition, deferred tax assets arose on useful corporate tax loss carry-forwards amounting to € 870 K, as well as € 5,561 K on future useful interest carry-forwards due to the German interest barrier in accordance with Article 8a para. 1 of the Corporate Tax Act (KStG) in conjunction with Article 4h of the Income Tax Act (EStG). An average tax rate of 28.8% was reckoned when determining deferred tax assets.

7 EXCESS OF PLAN ASSETS OVER PENSION LIABILITY GILDEMEISTER has concluded appropriate reinsurance contracts for defined-contribution pension provisions. The statement pertains mainly to the portion exceeding the corresponding pension liabilities.

Equity and Liabilities

8 EQUITY *Subscribed capital*

The registered capital of GILDEMEISTER Aktiengesellschaft amounts to € 118,513,207.80 and is fully paid up. It is divided into 45,582,003 owner shares with an accounting par value of € 2.60 per share.

The following statements have been taken primarily from the Articles of Association of GILDEMEISTER Aktiengesellschaft (status May 2010):

The Executive Board is authorised, with the approval of the Supervisory Board, to increase registered capital by up to € 59,256,600 in nominal terms during the period until 13 May 2015 by issuing up to 22,791,000 new owner shares for contributions in cash and / or in kind (authorised capital). This authority can be exercised on one occasion or, in partial amounts, on more than one occasion.

The new shares may be taken over by one or more banks designated by the Executive Board, with the obligation to offer them to the shareholders for subscription (indirect subscription right).

The Executive Board is authorised to issue shares to company employees and companies affiliated with the company with respect to a partial amount of € 5,000,000. The shareholders' statutory subscription rights are excluded to this extent.

In addition, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude the shareholders' statutory rights in the case of:

- a) capital increases through non-cash capital contribution so as to acquire, in applicable cases, companies, sections of a company or participating interests in companies for the transfer of shares,
- b) to the extent required for dilution protection purposes, in order to grant the holders of warrants or the creditors of convertible bonds issued by the company or its associated companies as part of an authorisation of the Board by the general meeting of shareholders, a subscription right to new shares to the same extent as they would be entitled to, if they were to exercise their option or conversion right or fulfil conversion obligations,
- c) to exclude any residual amounts from the subscription right, and
- d) capital increase through cash contribution, if the issue price of the new shares is not significantly lower than the exchange price at the time the issue price is finally defined by the Executive Board within the meaning of section 203 paragraphs 1 and 2 and section 186 paragraph 3 sentence 4 of the German Companies Act (AktG), and the prorated amount of the share capital relating to the new shares that are subject to the exclusion of the subscription right, in aggregate does not exceed 10% of the share capital at the time the new shares are issued. The limit of 10% of the registered capital includes shares that are sold during the lifespan of the authorised capital to the exclusion of the shareholders' subscription rights pursuant to section 71 paragraph 1, no. 8 sentence 5 and section 186 paragraph 3 sentence 4 of the German Companies Act (AktG), and shares with respect to which a conversion right or option right or a conversion obligation or option obligation due to option and / or convertible bonds exists and that were issued by virtue of authorisation of the general meeting of shareholders from 14 May 2004 to the exclusion of the subscription right pursuant to section 221 paragraph 4 and Section 186 paragraph 3 sentence 4 of the German Companies Act (AktG). The Executive Board is authorised, with the approval of the Supervisory Board, to define further specifications for the capital increase and its implementation.

The share capital has been conditionally increased by up to a further € 37,500,000 through the issue of up to 14,423,076 owner shares (conditional capital I). The contingent capital increase is for granting new bearer shares to the holders of options or warrants issued by the company or by a group company controlled by the company under the authorisation passed by resolution of the Annual General Meeting of 15 May 2009 under agenda item 7 against cash payment and grants a warrant or option right to the new bearer shares of the company or provides for a conversion requirement.

The new shares will be issued at an option or conversion price to be determined in accordance with the above named authorising resolution.

The capital increase is to be effected only insofar as the holders of option or conversion rights or those obliged to exercise conversion or options rights exercise their options or conversion rights, insofar as they are obliged to exercise their conversion or option rights, they fulfil their obligation to exercise conversion or option rights, and neither shares already in existence nor the payment of a cash amount is used to fulfil the option or conversion rights.

The new shares will participate in the profit as of the beginning of the financial year in which they are issued following the exercising of option or conversions rights, or the fulfilment of conversion or option obligations.

Capital provisions

The capital provision amounts to € 83,447,597 as in the previous year.

Revenue reserves

Statutory provisions

The statutory provisions of € 680,530 have not changed since the previous year.

Other revenue provisions

Due to the application of the German Accounting Law Modernisation Act (BilMoG) for the first time as of 01.01.2010, other revenue provisions have increased by € 9,965,928 to € 165,498,830. These are primarily excess plan assets from the anniversary valuation, as well as deferred tax assets from tax loss carry-forwards, interest barrier and temporary differences in value.

Proposed appropriation of earnings

The financial year 2010 of GILDEMEISTER Aktiengesellschaft closes with a net annual profit of € 1,078,460.76. It will be proposed to the Annual General Meeting of Shareholders on 13 May 2011 that, taking into account the profit carryforward from the previous year of € 1,905,532.82, the remaining profit of € 2,983,993.58 resulting from this, be carried forward to new account.

DEVELOPMENT OF THE NET RETAINED PROFITS		€ K
Net retained profit as of 31 Dec. 2009		6,464
Distribution		-4,558
Retained profits brought forward		1,906
Net annual profit 2010		1,078
Net retained profits as of 31 Dec. 2010		2,984

Distribution restrictions exist with regards to deferred tax assets of € 13,083 κ, offset by deferred tax liabilities of € 64 κ from a total of € 13,019 κ.

9 PENSION PROVISIONS The valuation of pension obligations was carried out for the first time as of 1 January 2010, on the basis of the German Accounting Law Modernisation Act (BilMoG). The valuation was carried out using the Projected Unit Credit Method (PUC method). The provision amount was calculated by including the assumption of trends with regard to future entitlement or pension developments and fluctuation probabilities. A discount rate of 5.15% p.a. was assumed, as well as a pension trend of 2.00% p.a. The provision for widows / widow pension entitlements was calculated using the collective method, where a marriage probability resulting from the accounting bases used, was applied. The contractual retirement age was specified as being the financing age of expiry. Due to the application of the German Accounting Law Modernisation Act (BilMoG), there was a difference of € 3,228 κ. Of this, € 262 κ was immediately reflected in profit or loss. A surplus amounting to € 2,966 remains outstanding for subsequent years.

10 TAX PROVISIONS Tax provisions include liabilities for corporation and trade tax of € 1,190 κ.

11 OTHER PROVISIONS Other provisions primarily include expenses for other employee expenses in an amount of € 4,499 κ (previous year: € 3,766 κ), of which severance pay accounts for € 3,443 κ (previous year: € 2,760 κ). Profit-sharing bonuses in an amount of € 3,930 κ (previous year: € 2,063 κ), expenses for legal and consultancy fees and costs for the preparation of accounts of € 1,753 κ (previous year: € 1,583 κ), provisions for Supervisory Board remuneration of € 778 κ (previous year: € 894 κ), as well as other provisions of € 1,277 κ (previous year: € 1,350 κ). There were no provisions for losses from pending transactions in the financial year (previous year: € 164 κ).

12 LIABILITIES

	Statement of financial position as of 31 Dec. 2010 € κ	Of which residual term up to 1 year € κ	Of which residual term 1 to 5 years € κ	Of which residual term more than 5 years € κ	Statement of financial position as of 31 Dec. 2009 € κ
1. Borrower's notes	201,500	0	201,500	0	200,000
2. Bank loans and overdrafts ¹⁾	87,729	87,082	363	284	80,802
3. Trade payables	2,380	2,380	0	0	2,207
4. Liabilities to affiliated companies	198,078	198,078	0	0	120,622
5. Other Liabilities ²⁾	6,199	6,199	0	0	5,606
	495,886	293,739	201,863	284	409,237
Outstanding in each maturity period at 31 Dec. 2009		208,510	140,252	60,475	409,237

¹⁾ of which secured by mortgages: € 727 κ (previous year: € 802 κ)

²⁾ of which from taxes: € 1,361 κ (previous year: € 1,982 κ), of which social security contributions: € 0 κ (previous year: € 0 κ), of which accrued interest payments: € 2,525 κ (previous year: € 3,577 κ)

In February 2010, GILDEMEISTER restructured the existing borrower's notes with a volume of € 200,000 κ. The borrower's note with a previous volume of € 140,000 κ was carried back by € 20,500 κ to € 119,500 κ via a termination agreement. The borrower's note's term expires in 2013. The borrower's note with a previous volume of € 60,000 κ and a seven-year term was carried back by € 8,000 κ to € 52,000 κ via a termination agreement. The initial seven-year term was reduced by two years until 2013. In addition, a further borrower's note amounting to € 30,000 κ was drawn, likewise with a term until 2013.

All borrower's notes amounting to € 201,500 κ bear interest at a 6-month EURIBOR rate plus an additional interest charge of a maximum of 4.75%.

Short and middle-term working capital requirements for GILDEMEISTER Aktiengesellschaft and – within the scope of intra-group cash management – for the majority of domestic subsidiaries are covered by a syndicated loan agreement. In February 2010, existing syndicated loans were re-financed. In addition to existing syndicated credit lines amounting to € 175,000 κ and with a term until 30 June 2011, a new syndicated loan with a volume of € 211,900 κ was concluded, with the aim of safeguarding company financing until 2012 and adjusting it to planned capital requirements. The existing loan is divided into two tranches and conditions were adjusted within the scope of the refinancing.

The new loan facility comprises two tranches. The first tranche with a volume of € 154,900 κ comprises an already agreed (forward start) loan with a term until December 2012. It can be drawn on in cash from 26 June 2011 and replaces the existing syndicated loan with a volume of € 175,000 κ. The second tranche with a volume of € 57,000 κ may be drawn on immediately. It likewise has a term until December 2012. The new syndicated loan has been drawn from the banks in the existing banking consortium. The loan agreements bear interest at a 6-month EURIBOR rate plus an additional interest charge of a maximum of 4.75%.

Financing commitments were granted by 32 banks. The largest financial institute will provide an amount of € 40,500 κ. The financing agreements were signed in February 2010.

The syndicated loan is classified as a short-term loan, as this can only be drawn upon for a maximum of six months.

In addition to the syndicated loans and borrower's notes, there are several long-term loans amounting to € 727 κ (previous year: € 802 κ).

The financing agreements for the syndicated loan and borrower's notes obligate GILDEMEISTER to comply with covenants. Due to a change in key financial indicators as a result of an increase in orders in the machine tool segment and delays in the project business, there was a risk that these key financial indicators could be violated as of 31 December 2010. GILDEMEISTER therefore led negotiations with loan creditors at an early stage, in order to make a non-recurring adjustment to the threshold value of leverage. All loan creditors agreed to this change.

As for the previous financing, the lending banks have completely waived the right to collateral both for the syndicated credit line as well as for the borrowers' notes in the refinancing. The companies DECKEL MAHO Pfronten GmbH, DECKEL MAHO Seebach GmbH, GILDEMEISTER Drehmaschinen GmbH, DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, GILDEMEISTER Beteiligungen AG, GILDEMEISTER Partecipazioni S.r.l., FAMOT Pleszew Sp. z o.o. and GILDEMEISTER Italiana S.p.A. are guarantors for the loan agreements and the borrowers' notes. a+f GmbH is an additional guarantor.

13 CONTINGENCIES AND OTHER
FINANCIAL OBLIGATIONS

At the end of the reporting period the following contingencies and other financial obligations existed, shown at their face value:

CONTINGENCIES	31 Dec. 2010	31 Dec. 2009
	€ K	€ K
Guarantees	308,233	171,224
Warranties	3,766	6,097
	311,999	177,321
OBLIGATIONS FROM TENANCY AND LEASE AGREEMENTS DUE		
within 1 year	377	431
within 1 and 5 years	582	1,039
after 5 years	0	0
	959	1,470

The guarantees of GILDEMEISTER Aktiengesellschaft include maximum-amount guarantees of € 39,375 K (previous year: € 40,175 K) for affiliated companies. The value date of the liabilities to banks pertaining to guarantees was fixed at 31 December 2010 at an amount of € 16,403 K (previous year: € 17,517 K). At the end of the reporting period GILDEMEISTER Aktiengesellschaft is jointly and severally liable for liabilities of € 12,095 K (previous year: € 30,589 K).

The guarantees of GILDEMEISTER Aktiengesellschaft also include guarantees for affiliated companies for contingent claims of a factoring bank amounting to € 2,988 K (previous year: € 738 K).

Advance customer payment guarantees of € 109,522 K (previous year: € 54,523 K) were given to several group companies.

Moreover, GILDEMEISTER Aktiengesellschaft also has a guarantee line, which can be used for advance and performance guarantees of the domestic subsidiaries with secondary liability of GILDEMEISTER Aktiengesellschaft. On 31 December 2010, the amount used was € 175,680 K (previous year: € 94,370 K).

Furthermore, GILDEMEISTER Aktiengesellschaft has signed letters of comfort for DMG Europe Holding GmbH, Sauer GmbH, a+f GmbH, DMG Benelux B.V., DMG Mori Seiki Malaysia SDN BHD, DMG Asia PTE, as well as DMG Nippon k.k. amounting to € 18,169 K in total. The liabilities for this were valued on 31 December 2010 in an amount of € 2,018 K.

Through past experience, we consider the probability of a pending claim by the beneficiaries to be extremely low.

In addition, GILDEMEISTER Aktiengesellschaft has entered into two building leasing arrangements for DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg, and DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bad Homburg. The monthly rental interest on these agreements amounts to € 105 k. These agreements have a term until 2024.

14 DERIVATIVE FINANCIAL INSTRUMENTS

The face and fair market values of derivative financial instruments existing at the end of the reporting period are set out below:

	Nominal volume		Fair value	
	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009
	€ K	€ K	€ K	€ K
Forward exchange contracts	259,586	103,286	1,812	2,338
Interest rate swaps	200,000	200,000	-17,512	-18,347
	459,586	303,286	-15,700	-16,009

The nominal value corresponds to the total of all sale and purchase amounts of derivative financial transactions. The fair market values shown correspond to the price at which third parties would assume the rights or obligations arising from the financial instruments. The fair market values are the current values of the derivative financial instruments excluding any adverse trends in value from underlying transactions. The fair market values of the derivative financial instruments used are determined on the basis of quoted market prices or through accrual methods based on customary models.

The fair market values of the forward exchange contracts are balanced at € 1,812 k and comprise positive market values of € 3,610 k and negative market values of € 1,798 k. If pre-conditions exist, the forward exchange contracts are combined in valuation units per currency.

GILDEMEISTER Aktiengesellschaft enters into intragroup forward exchange contracts with the product and production plants to the value of anticipated cash flows from order intake, as well as loan receivables in foreign currency to group companies. The anticipated cash flows are hedged externally with financial institutes.

The conclusion and processing of derivative financial instruments is based on binding internal regulations defining scope, responsibilities, reporting and controlling.

The forward exchange contracts concluded report a residual term of up to one year as of the balance sheet date and serve to hedge foreign currency receivables to group companies in USD, CAD, SGD, JPY and GBP. Interest rate swaps for a nominal total volume of € 140,000 k were concluded at a secured interest rate of 4.98% up to 5.02% with a term to 29 May 2013. The interest rate swaps bind GILDEMEISTER to pay a fixed interest rate for the term on the volume concluded. As a set-off, GILDEMEISTER receives a EURIBOR 6-month rate payment from the contractual partner to the interest rate swap.

In addition, GILDEMEISTER has concluded an additional interest rate swap for a nominal volume of € 60,000 κ and a fixed interest rate of 4.79% with a term until 29 May 2015. The interest rate swaps bind GILDEMEISTER to pay a fixed interest rate for the term on the volume concluded. As a set-off, GILDEMEISTER receives a EURIBOR 6-month rate payment from the contractual partner to the interest rate swap.

If the borrower's notes should be partly or wholly redeemed, all value changes on the interest rate swap portion relating to the loan amount redeemed, would be recognised in profit or loss as an ineffective hedging instrument.

In the financial year just ended GILDEMEISTER had the following four types of valuation units:

No.	Risk	Underlying transaction		Hedging instrument			Accounting method	
		Type of underlying transaction	Nominal amount	Hedge ratio	Type of hedge instrument	Nominal amount		Type of valuation unit
			in € million	in %		in € million		
1	Interest rate change risk	Borrower's note loan	200.0	100.0	external interest rate swaps	200.0	micro valuation unit	Net method
2	Currency risk (CAD, GBP, SGD, USD)	Internal foreign exchange forward contracts (mapping of order intake at subsidiaries)	52.7	88.5	external foreign exchange forward contract	46.6	Portfolio valuation unit	Gross method
3	Currency risk (CAD, GBP, JPY, SGD, USD)	Internal foreign exchange forward contracts (mapping of supplier payables at subsidiaries)	57.2	98.5	external foreign exchange forward contract	56.3	Portfolio valuation unit	Gross method
4	Currency risk (AUD, CHF, CZK, GBP, USD)	Intra-group foreign currency loan	42.2	86.7	external foreign exchange forward contract	36.6	micro valuation unit	Gross method

Due to the correspondence of essential transaction characteristics of an evaluation unit, the changes in value or payment flows largely offset each other. Unrealised losses, which are not offset by unrealised profits of the same amount, have been recognised as expense. The hedge exists in each case for the entire term of the underlying transaction. To determine effectiveness, the dollar-offset method is used.

15 TRADE WITH RELATED COMPANIES AND PERSONS

In financial year 2010, GILDEMEISTER Aktiengesellschaft only had business relations with related companies and persons under customary market conditions.

D. Notes and Disclosures on individual items in the Statement of Comprehensive Income

- 16 SALES REVENUES** Sales revenues of € 10,563 κ (previous year: € 11,425 κ) primarily pertain to sales arising from group-wide holding functions.
- 17 OTHER OPERATING INCOME** Other operating income amounting to € 13,561 κ consists mainly of income from cost allocation and refund of expenses as well as exchange rate and currency gains. First-time application of the German Accounting Law Modernisation Act (BilMoG) resulted in exchange gains amounting to € 5,113 κ. In addition, earnings from the dissolution of provisions of € 1,288 κ (previous year: € 3,122 κ) are included.
- 18 EMPLOYEE EXPENSES** In the financial year 2010, the employee pension plan contributions amounted to € 2,022 κ (previous year: € 3,417 κ). Direct remuneration of the members of the Executive Board amounted to € 4,027 κ (previous year: € 2,988 κ). Of this, € 1,821 κ (previous year: € 1,673 κ) was attributed to the fixed remuneration, € 1,295 κ to the STI (previous year: € 400 κ). The STI therefore takes into account the target achievement of a positive operating result during the economic crisis. The LTI amounted to € 0 κ, as the EBIT margins fixed for the tranche 2008 – 2010 were not reached in the allocation year 2010. Expenses for the individual performance remuneration amounted to € 800 κ (previous year: € 800 κ). Benefits in kind accounted for € 111 κ (previous year: € 115 κ). The employment relationship of Michael Welt was terminated on 31 October 2010. For the period following the revocation of appointment on 19 May 2010, he received the contractual set fixed compensation of € 173 κ, as well as € 5 κ benefits in kind. Within the scope of the comparative settlement of the employment relationship, a payment amounting to € 2,900 κ was agreed. This amount includes the duties and obligations from the contract of employment and is both less than the capitalised remaining term of the contract and the average remuneration relating to two years.
- Former members of the Executive Board and their surviving dependants received € 618 κ (previous year: € 604 κ). Pension provisions for former members of the Executive Board and their surviving dependants have been formed in an amount of € 6,043 κ (previous year: € 5,863 κ).
- Advances and loans to officers were not granted. No liability arrangements were entered into in favour of any officers (Section 285 no. 9c HGB).
- In comparison with the previous year, the average number of persons employed has developed as follows:

	2010	2009
Salary earnings	62	64

19 OTHER OPERATING EXPENSES Other operating expenses resulted amongst others from external services in an amount of € 3,523 κ (previous year: € 3,335 κ). The costs of preparing the financial statements, legal and consultancy fees amount to € 3,408 κ (previous year: € 3,406 κ). Furthermore, expenses for investor and public relation expenses of € 2,441 κ (previous year: € 2,460 κ), travelling and entertaining expenses of € 1,703 κ (previous year: € 1,422 κ), rental and lease expenses of € 1,302 κ (previous year: € 1,597 κ), insurance contributions of € 1,321 κ (previous year: 1,389 κ) and costs of money transactions and capital procurement of € 814 κ (previous year: € 555 κ) are shown. Exchange rate and currency losses of € 6,977 κ (previous year: € 3,121 κ) are set off against € 9,194 κ (previous year: € 2,639 κ) exchange rate and currency gains. The application of the German Accounting Law Modernisation Act for the first time resulted in exchange rate losses amounting to € 5,324 κ.

Auditor's fees and services

In the financial year 2010, the fees of the auditor of the Financial Statements, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, amounted to € 360 κ (previous year: € 407 κ) and include the fees and expenses for the statutory audit of the annual and consolidated financial statements. In addition, for other confirmation or assessment services € 6 κ (previous year: € 4 κ) and other services of € 192 κ (previous year: € 383 κ) were also charged to expenses.

Remuneration of the Supervisory Board

In the financial year 2010, € 778 κ (previous year: € 894 κ) were transferred to provisions for Supervisory Board members' remuneration. Further details on the remuneration of the Supervisory Board are given in the Management Report.

20 INCOME FROM PROFIT AND LOSS TRANSFER AGREEMENTS The income from profit and loss transfer agreements of GILDEMEISTER Aktiengesellschaft of € 30,253 κ (previous year: € 24,584 κ) was allocated to DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER.

21 INCOME FROM PROFIT-SHARING Income from profit-sharing in an amount of € 799 κ (previous year: € 485 κ) relates to the dividend payout of Mori Seiki Co., Ltd.

22 OTHER INTEREST AND SIMILAR INCOME In the reporting period affiliated companies were charged interest to the value of € 25,290 κ (previous year: € 22,082 κ).

23 EXPENSES FROM THE ASSUMPTION OF LOSSES Expenses from the assumption of losses in an amount of € 1,307 κ (previous year: € 8,163 κ) were allocated to GILDEMEISTER Beteiligungen AG.

24 INTEREST AND SIMILAR EXPENSES The interest expense of € 37,947 κ (previous year: € 23,522 κ) includes interest of € 4,015 κ (previous year: € 3,711 κ), charged by the affiliated companies and interest expense from pension provisions of € 832 κ (previous year: € 0 κ). The remainder of the interest expenses is essentially accounted for by interest on liabilities to banks.

25 EXTRAORDINARY PROFIT	The amount shown relates primarily to income from the valuation of surrender values for insurances (€ 1,159 κ), as well as expenses arising from the initial application of the German Accounting Law Modernisation Act when valuating pension provisions (€ -272 κ).
26 TAXES ON INCOME AND EARNINGS	Due to the German interest-capping rules, taxes on interest carryforwards of € 2,825 κ (previous year: € 0 κ) have been capitalised. Deferred taxes on loss carryforwards were balanced to an amount of € 870 κ (previous year: € 0 κ). Taxes from income and earnings include taxes unrelated to the accounting period in an amount of € 1,041 κ (previous year income unrelated to the accounting period: € 352 κ), as well as further tax expenses of € 1,133 κ.
27 STATUTORY COMPANY STATEMENT PURSUANT TO ARTICLE 26 OF THE GERMAN SECURITIES TRADING ACT (WpHG)	<p>Mori Seiki International s.A., Le Locle, Switzerland, pursuant to Article 21 para. 1 of the German Securities Trading Act (WpHG), informed us in writing on 20 July 2010 that their share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstraße 60, 33689 Bielefeld, Germany, exceeded the 3% and 5% thresholds on 29 March 2010 and thus amounts to 5.000877% (2,279,500 voting rights).</p> <p>Note: The acquisition of voting rights is solely due to the internal relocation of shareholdings from Mori Seiki Co. Ltd., Nagoya, Japan, to Mori Seiki International s.A., Le Locle, Switzerland.</p> <p>The Governance for Owners Group LLP, London, United Kingdom, pursuant to Article 21 para. 1 of the German Securities Trading Act (WpHG), informed us in writing on 31 August 2010 that their share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstraße 60, 33689 Bielefeld, Germany, exceeded the 3% threshold on 28 February 2007 and thus amounts to 3.02% (1,308,873 voting rights). This 3.02% (1,308,873 voting rights) is assigned to the Governance for Owners Group LLP pursuant to Article 22 para. 1 clause 1 no. 1 of the German Securities Trading Act (WpHG) by Governance for Owners LLP.</p> <p>The Governance for Owners Group LLP, London, United Kingdom, pursuant to Article 21 para. 1 of the German Securities Trading Act (WpHG), informed us in writing on 31 August 2010 that their share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstraße 60, 33689 Bielefeld, Germany, fell below the 3% threshold on 27 September 2007 and thus amounts to 2.94% (1,274,761 voting rights). This 2.94% (1,274,761 voting rights) is assigned to the Governance for Owners Group LLP pursuant to Article 22 para. 1 sentence 1 no. 1 of the German Securities Trading Act (WpHG) by Governance for Owners LLP.</p> <p>Note: The statutory company statement relates to a late registration from the Governance for Owners Group LLP, London, which was received by us on 31 August 2010. The Governance for Owners Group LLP, London, is the parent company of Governance for Owners LLP, London, which had already notified us of their indirect share of voting rights having exceeded / fallen below the relevant threshold values in 2007.</p>
28 DECLARATION OF COMPLIANCE WITH THE CORPORATE GOVERNANCECODE	The declaration of compliance in accordance with Section 161 German Companies Act (AktG) was issued on December 2010 and has been made permanently accessible to shareholders on our website www.gildemeister.com .

E. Corporate Directory

- Supervisory Board mandate pursuant to Section 100 AktG (German Companies Act)
- * Member of comparable domestic and foreign control bodies of business enterprises

Supervisory Board

Hans Henning Offen

Großhansdorf, born 1940, Chairman, Independent Industry Consultant,

- Lindner Hotels AG, Düsseldorf, Member of the Supervisory Board
- * Lindner Unternehmensgruppe GmbH & Co. KG, Düsseldorf, Chairman of the Advisory Board
- * Schwarz Beteiligungs GmbH, Neckarsulm, Member of the Advisory Board
- * Schwarz Unternehmenstreuhand KG, Neckarsulm, Member / Associate Member of the Supervisory Board

Gerhard Dirr

Vils / Austria, born 1964, Deputy Chairman, Head of Facility Management at DECKEL MAHO Pfronten GmbH, Pfronten

Wulf Bantelmann

Bielefeld, born 1947, Chairman of the Works Council at GILDEMEISTER Drehmaschinen GmbH, Bielefeld, until 31 May 2010

Günther Berger

Munich, born 1948, Independent Industry Consultant, until 17 March 2010

- Rathgeber AG, Munich, Member of the Supervisory Board

Harry Domnik

Bielefeld, born 1953, 1st secretary of the IG Metall-Headquarter, Bielefeld,

- * ThyssenKrupp Umformtechnik GmbH, Ludwigsfelde, Deputy Chairman of the Supervisory Board, until 26 Nov. 2010

Prof. Dr. Edgar Ernst

Bonn, born 1952, Management Consultant since 11 May 2010

- Deutsche Postbank AG, Bonn, Member of the Supervisory Board
- Österreichische Post AG, Vienna, Member of the Supervisory Board
- TUI AG, Hannover, Member of the Supervisory Board, as of 09 Feb. 2011

Oliver Grabe

Bielefeld, born 1964, Member of the Works Council of GILDEMEISTER Drehmaschinen GmbH, Bielefeld, as of 01 June 2010

Dr.-Ing. Jürgen Harnisch

Mühlheim an der Ruhr, born 1942, Independent Industry Consultant,

- * Kongsberg Automotive Holding ASA, Kongsberg, Norway, Member of the Supervisory Board
- * MacLean-Fogg Company, Mundelein, Illinois, USA, Member of the Supervisory Board
- * Presswerk Krefeld GmbH & Co. KG, Krefeld, Member of the Supervisory Board
- Schenck Process Holding GmbH, Darmstadt, Member of the Supervisory Board

Ulrich Hocker

Düsseldorf, born 1950, Chief Executive Officer of Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW), since 11 May 2010

- Deutsche Telekom AG, Bonn, Member of the Supervisory Board
- E.ON AG, Düsseldorf, Member of the Supervisory Board
- FERi Finance AG, Bad Homburg, Deputy Chairman of the Supervisory Board
- * Phoenix Mecano AG, Kloten, Switzerland, President of the Administrative Board
- * GARTMORE SICAV, Luxembourg, Member of the Board

Prof. Dr.-Ing. Walter Kunerth

Zeitlarn, born 1940, Independent Industry Consultant,

- Götz AG, Regensburg, Chairman of the Supervisory Board, until 21 Dec. 2010
- paragon AG, Delbrück, Chairman of the Supervisory Board, until 30 Sep. 2010
- * Autoliv Inc., Stockholm, Sweden, Member of the Board of Directors

Prof. Dr.-Ing. Uwe Loos

Stuttgart, born 1946, Independent Industry
Consultant, until 31 March 2010

- Dorma Holding GmbH + Co. KGaA,
Ennepetal, Member of the Supervisory Board
- Adam Opel GmbH, Rüsselsheim
Member of the Supervisory Board,
until 31 Jan. 2010
- KUKA AG, Augsburg,
Member of the Supervisory Board
- * Claas KGaA mbH, Harsewinkel,
Member of the shareholder committee,
until 31 Jan. 2010
- * Bharat Forge LTD, Pune, India,
Non Executive Independent Director
- * cdp Bharat Forge GmbH, Ennepetal,
Member of the Advisory Council
- * HP Pelzer GmbH, Witten,
Member of the Supervisory Board
- * Rodenstock GmbH, Munich,
Member of the Supervisory Board,
Member of the Advisory Board

Dr. Ing. Masahiko Mori

Nagoya, born 1961,
President of Mori Seiki Co. Ltd.

Matthias Pfuhl

Schmerbach, born 1960,
Chairman of the Works Council at
DECKEL MAHO Seebach GmbH

Günther-Johann Schachner

Peiting, born 1952,
1st secretary of the
IG Metall-Headquarters, Weilheim

Norbert Zweng

Eisenberg, born 1957,
Head of Logistics at DECKEL MAHO
Pfronten GmbH,
Senior Executives' representative

Executive Board**Dipl.-Kfm. Dr. Rüdiger Kapitza**

Bielefeld,
Chairman

Dipl.-Ing. Günter Bachmann

Wutha-Farnroda

Dipl.-Kffr. Kathrin Dahnke

Bielefeld,
as of 20 May 2010

Dipl.-Kfm. Dr. Thorsten Schmidt

Bielefeld

Dipl.-Kfm. Michael Welt

Pfronten,
until 19 May 2010

Affiliated Companies

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES, PROCUREMENT / COMPONENTS					
	National currency	Equity ¹⁾	€ K	Participation quota in %	Result of the financial year 2010 ¹⁾ € K
GILDEMEISTER Beteiligungen AG, Bielefeld ^{2/5)}			240,416	100.0	
DECKEL MAHO Pfronten GmbH, Pfronten ^{4/6/7)}			47,922	100.0	
SAUER GmbH, Stipshausen / Idar-Oberstein ^{4/8/9)}			6,942	100.0	
Alpenhotel Krone GmbH & Co. KG, Pfronten ^{4/8)}			198	100.0	- 2
Alpenhotel Krone Beteiligungsgesellschaft mbH, Pfronten ^{4/8)}			12	100.0	
DECKEL MAHO GILDEMEISTER (Shanghai)					
Machine Tools Co., Ltd., Shanghai, China ⁶⁾	CNY K	178,215	20,201	100.0	3,904
FAMOT Pleszew Sp. z o.o., Pleszew, Poland ⁶⁾	PLN K	82,474	20,748	100.0	2,630
GILDEMEISTER Drehmaschinen GmbH, Bielefeld ^{4/6/7)}			15,750	100.0	
GILDEMEISTER Partecipazioni S.r.l., Tortona, Italy ⁶⁾			90,801	100.0	245
GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italy ³⁾			50,788	100.0	- 4,706
GRAZIANO Tortona S.r.l., Tortona, Italy ³⁾			11,911	100.0	280
SACO S.p.A., Castelleone, Italy ³⁾			1,264	100.0	- 224
DMG Service Drehen Italia S.r.l., Brembate di Sopra (Bergamo), Italy ³⁾			123	100.0	97
DMG Italia S.r.l., Brembate di Sopra, Italy ³⁾			5,396	100.0	1,777
a+f Italia S.r.l., Milan, Italy ³⁾			- 489	100.0	- 1,384
a+f Italia Holding S.r.l., Milan, Italy ²¹⁾			9	100.0	- 1
MASSERIA MARAMONTI S.r.l., Milan, Italy ²¹⁾			- 15	100.0	- 26
Lacerta SRL, Milan, Italy ²¹⁾			7	100.0	- 3
IL Giardino del Sole S.r.l., Milan, Italy ²¹⁾			7	100.0	- 3
SunCarrier Puglia 1 S.r.l., Milan, Italy ²¹⁾			8	100.0	- 2
SunCarrier Puglia 2 S.r.l., Milan, Italy ²¹⁾			8	100.0	- 2
SunCarrier Puglia 3 S.r.l., Milan, Italy ²¹⁾			8	100.0	- 2
SunCarrier Puglia 4 S.r.l., Milan, Italy ²¹⁾			8	100.0	- 2
SunCarrier Puglia 5 S.r.l., Milan, Italy ²¹⁾			8	100.0	- 2
Carapelle 1 S.r.l., Milan, Italy ²¹⁾			4	100.0	
Carapelle 2 S.r.l., Milan, Italien ²¹⁾			5	100.0	
Carapelle 3 S.r.l., Milan, Italy ²¹⁾			5	100.0	
Carapelle 4 S.r.l., Milan, Italy ²¹⁾			5	100.0	
Carapelle 5 S.r.l., Milan, Italy ²¹⁾			5	100.0	
Carapelle 6 S.r.l., Milan, Italy ²¹⁾			5	100.0	
Carapelle 7 S.r.l., Milan, Italy ²¹⁾			5	100.0	
Carapelle 8 S.r.l., Milan, Italy ²¹⁾			5	100.0	

**PRODUCTION PLANTS, SALES AND SERVICE COMPANIES,
PROCUREMENT / COMPONENTS (CONTINUATION)**

National currency	Equity ¹⁾	€ K	Participation quota in %	Result of the financial year 2010 ¹⁾ € K
Carapelle 9 S.r.l., Milan, Italy ²¹⁾		5	100.0	
Carapelle 10 S.r.l., Milan, Italy ²¹⁾		5	100.0	
Carapelle 11 S.r.l., Milan, Italy ²¹⁾		5	100.0	
Carapelle 12 S.r.l., Milan, Italy ²¹⁾		5	100.0	
Agridaunia S.r.l., Milan, Italy ²¹⁾		5	100.0	
Agrestis S.r.l., Milan, Italy ²¹⁾		6	100.0	
Capitanata Rurale S.r.l., Milan, Italy ²¹⁾		5	100.0	
Le Daunia Gialla S.r.l., Milan, Italy ²¹⁾		4	100.0	
La Terra del Sole S.r.l., Milan, Italy ²¹⁾		4	100.0	
Terra Mia S.r.l., Milan, Italy ²¹⁾		109	100.0	
Il Sole della Puglia S.r.l., Milan, Italy ²¹⁾		5	100.0	
Il Tavoliere S.r.l., Milan, Italy ²¹⁾		5	100.0	
L'orto del Sole S.r.l., Milan, Italy ²¹⁾		5	100.0	
La Buona Terra S.r.l., Milan, Italy ²¹⁾		5	100.0	
Le Fonti del Sole S.r.l., Milan, Italy ²¹⁾		5	100.0	
Energia Solare S.r.l., Milan, Italy ²¹⁾		5	100.0	
Le Fonti Rinnovabili S.r.l., Milan, Italy ²¹⁾		5	100.0	
Solar Energy S.r.l., Milan, Italy ²¹⁾		6	100.0	
Bio Energie S.r.l., Milan, Italy ²¹⁾		6	100.0	
Daunia Energia S.r.l., Milan, Italy ²¹⁾		5	100.0	
Elios Energia S.r.l., Milan, Italy ²¹⁾		6	100.0	
Energia e Vita S.r.l., Milan, Italy ²¹⁾		6	100.0	
Energia Pulita S.r.l., Milan, Italy ²¹⁾		6	100.0	
Helios Technology Puglia S.r.l., Milan, Italy ²¹⁾		6	100.0	
Puglia Solare S.r.l., Milan, Italy ²¹⁾		6	100.0	
Sun Power Puglia S.r.l., Milan, Italy ²¹⁾		6	100.0	
Sunland S.r.l., Milan, Italy ²¹⁾		6	100.0	
DECKEL MAHO Seebach GmbH, Seebach ^{4/6/7)}		8,363	100.0	
DMG Automation GmbH, Hüfingen ^{4/5/6/7)}		1,486	100.0	
DMG Electronics GmbH, Pfronten ^{4/6/7)}		500	100.0	
DMG Spare Parts GmbH, Geretsried ^{4/5/6/7)}		12,000	100.0	
GILDEMEISTER Finance S.à.r.l., Luxembourg ⁶⁾		1	100.0	- 2

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES, PROCUREMENT / COMPONENTS (CONTINUATION)				Participation quota in %	Result of the financials year 2010 ¹⁾ € K
National currency	Equity ¹⁾	€ K			
MITIS Grundstücks-Vermietungs Gesellschaft mbH & Co.					
Objekt Bielefeld KG, Düsseldorf ⁴⁾			- 35	100.0	18
MITIS Grundstücks-Vermietungs Gesellschaft mbH, Düsseldorf ⁴⁾					
			54	100.0	19
DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld ^{2/4/5)}					
DMG Stuttgart Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Leonberg ^{4/5/10/11)}			45,001	100.0	
DMG München Vertriebs und Service GmbH für Werkzeugmaschinen					
DECKEL MAHO GILDEMEISTER, Munich ^{4/5/12/13)}			929	100.0	
DMG Hilden Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Hilden ^{4/5/12/13)}			935	100.0	
DMG Bielefeld Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Bielefeld ^{4/5/12/13)}			957	100.0	
DMG Berlin Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Berlin ^{4/5/11/12)}			301	100.0	
DMG Frankfurt am Main Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Bad Homburg ^{4/5/12/13)}			610	100.0	
DMG Europe Holding GmbH, Klaus, Austria ¹⁰⁾					
			74,038	100.0	3,172
DMG Mori Seiki South East Asia Pte. Ltd., Singapore ¹⁴⁾	SGD K	9,736	5,682	100.0	55
DMG Australia Pty. Ltd., Clayton Victoria, Australia ¹⁵⁾	AUD K	5,675	4,320	100.0	- 128
DMG (Thailand) Co. Ltd., Bangkok, Thailand ¹⁵⁾	THB K	16,585	413	100.0	19
DMG Mori Seiki (Malaysia) SDN BHD, Puchong / Kuala Lumpur, Malaysia ¹⁵⁾					
	MYR K	9,669	2,361	100.0	562
DMG Austria GmbH, Klaus, Austria ¹⁴⁾					
			5,874	100.0	871
DMG ECOLINE GmbH, Klaus, Austria ¹⁴⁾					
			1,939	100.0	- 961
DMG Middle East FZE, Dubai, United Arab Emirates ¹⁴⁾					
	AED K	188	38	100.0	- 351
DMG Benelux B.V., Veenendaal, Netherlands ¹⁴⁾					
			36,770	100.0	404
DECKEL MAHO GILDEMEISTER Brasil Ltda., São Paulo, Brazil ¹⁶⁾					
	BRL K	5,218	2,353	100.0	- 527
DECKEL MAHO GILDEMEISTER Iberica S.L., Ripollet, Spain ¹⁶⁾					
			3,298	100.0	776
AF Sun Carrier Ibérica S.L., Madrid, Spain ²²⁾					
			- 93	100.0	- 96
DMG America Inc., Itasca, USA ¹⁶⁾					
	USD K	47,869	35,825	100.0	3,087
DMG Charlotte LLC, Charlotte, USA ¹⁷⁾					
	USD K	2,143	1,604	100.0	- 27
DMG Chicago Inc., Itasca, USA ¹⁷⁾					
	USD K	294	220	100.0	- 1,868
DMG Houston Inc., Houston, USA ¹⁷⁾					
	USD K	61	46	100.0	- 21
DMG Los Angeles Inc., Los Angeles, USA ¹⁷⁾					
	USD K	333	249	100.0	
DMG Boston LLC, Burlington, USA ¹⁷⁾					
	USD K	2,618	1,959	100.0	- 3
a+f USA LLC, Wilmington, USA ¹⁷⁾					
	USD K	220	165	100.0	- 812

**PRODUCTION PLANTS, SALES AND SERVICE COMPANIES,
PROCUREMENT / COMPONENTS (CONTINUATION)**

	National currency	Equity ¹⁾	€ K	Participation quota in %	Result of the financial year 2010 ¹⁾ € K
DMG Asia Pte. Ltd., Singapore ¹⁶⁾			14,629	100.0	1,017
DMG Benelux BVBA – SPRL., Zaventem, Belgium ¹⁶⁾			3,572	100.0	388
DMG France S.a.r.l., Les Ulis, France ¹⁶⁾			5,598	100.0	813
a+f SunCarrier France SAS, Les Ulis, France ²³⁾			10	100.0	
DMG Czech s.r.o., Brno, Czech Republic ¹⁶⁾	CZK K	184,870	7,377	100.0	719
DMG Polska Sp. z o.o., Pleszew, Poland ¹⁶⁾	PLN K	27,051	6,805	100.0	1,064
DMG (Schweiz) AG DECKEL MAHO GILDEMEISTER, Dübendorf, Switzerland ¹⁶⁾	CHF K	19,911	15,923	100.0	1,782
DMG Romania Sales & Services S.r.l., Bukarest, Rumania ¹⁶⁾	RON K	1,429	335	100.0	188
DMG South East Europe E.P.E., Thessaloniki, Greece ¹⁶⁾			8	100.0	-323
DMG (U.K.) Ltd., Luton, Great Britain ¹⁶⁾	GBP K	4,652	5,404	100.0	902
DMG Russland o.o.o., Moskau, Russia ¹⁴⁾	RUB K	59,875	1,467	100.0	349
DMG Mori Seiki Istanbul Makine Ticaret ve Servis Limited Sirketi, Istanbul, Turkey ¹⁴⁾	TRY K	5,632	2,721	100.0	1,150
DMG Nippon k.k., Yokohama, Japan ¹⁴⁾	JPY K	462,818	4,260	100.0	63
DMG Scandinavia Sverige AB, Sollentuna, Sweden ¹⁴⁾	SEK K	20,823	2,323	100.0	101
DMG Hungary Kereskedelmi és Szerviz Korlatolt Felelősségű Társaság, Budapest, Hungary ¹⁴⁾			1,007	100.0	93
DMG Scandinavia Norge AS, Langhus, Norway ¹⁴⁾	NOK K	6,209	796	100.0	66
DMG Canada Inc., Toronto, Canada ¹⁰⁾	CAD K	2,335	1,677	100.0	335
DECKEL MAHO GILDEMEISTER México S.A. de C.V., Queretaro, Mexico ¹⁰⁾	MXN K	1,432	87	100.0	-1,437
DMG Technology Trading (Shanghai) Co. Ltd., Shanghai, China ¹⁰⁾	CNY K	57,081	6,470	100.0	600
DMG Mori Seiki INDIA MACHINES AND SERVICES Private Limited, Bangalore, India ¹⁰⁾	INR K	384,749	6,424	51.0	349
DMG Mori Seiki (Taiwan) Co. Ltd., Taichung, Taiwan ¹⁰⁾	TWD K	72,277	1,851	100.0	437
DMG Mori Seiki Korea Co. Ltd., Seoul, Korea ¹⁰⁾	KRW K	5,730,584	3,823	100.0	749
DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER, Bielefeld ^{4/5/10/11)}			1,508	100.0	
DMG Service Fräsen GmbH, Pfronten ^{4/5/10/11)}			2,730	100.0	
DMG Gebrauchtmachines GmbH DECKEL MAHO GILDEMEISTER, Geretsried ^{4/5/10/11)}			17,517	100.0	
DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER, Bielefeld ^{4/5/10/11)}			271	100.0	
DMG MICROSET GmbH, Bielefeld ^{4/5/10/11)}			1,405	100.0	
a+f GmbH, Würzburg ^{4/5/10/11)}			20,100	100.0	
Cellstrom GmbH, Wien, Austria ¹⁸⁾			3,534	50.001	-2,444

**PRODUCTION PLANTS, SALES AND SERVICE COMPANIES,
PROCUREMENT / COMPONENTS (CONTINUATION)**

	National currency	Equity ¹⁾	€ K	Participation quota in %	Result of the financial year 2010 ¹⁾ € K
OTHER					
BIL Leasing GmbH & Co 736 KG, Munich ¹⁹⁾			0		
BIL Leasing GmbH & Co 748 KG, Munich ²⁰⁾			0		
DMG / Mori Seiki Australia PTY Ltd., Clayton Victoria, Australia	AUD K	1,429	1,088	50.0	- 561
SUN CARRIER OMEGA Pvt. Ltd., Bhopal, India	INR K	60,000	997	50.0	- 3
MG Finance GmbH, Wernau Neckar			15,742	33.3	161

- 1) The figures correspond with the financial statements prepared in accordance with local regulations, they do not show the respective companies' contribution to the Consolidated Financial Statements. Foreign currencies with respect to equity were translated at the market price on reporting date.
- 2) Management and profit and loss transfer agreement with GILDEMEISTER Aktiengesellschaft.
- 3) Participation interest of GILDEMEISTER Partecipazioni S.r.l.
- 4) The domestic subsidiary has complied with the conditions required by Section 264 paragraph 3 HGB (German Commercial Code) regarding the application of the exemption regulations and therefore waives the disclosure of its annual financial statements and relating documents.
- 5) The domestic subsidiary has complied with the conditions required by Section 264 paragraph 3 HGB (German Commercial Code) regarding the application of the exemption regulations and therefore waives the disclosure of the management report.
- 6) Participation interest GILDEMEISTER Beteiligungen AG.
- 7) Management and profit and loss transfer agreement with GILDEMEISTER Beteiligungen AG.
- 8) Participation interest of DECKEL MAHO Pfronten GmbH.
- 9) Management and profit and loss transfer agreement with DECKEL MAHO Pfronten GmbH.
- 10) Participation interest of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER.
- 11) Management and profit and loss transfer agreement with DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER.
- 12) Participation interest of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER.
- 13) Management and profit and loss transfer agreement with DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER.
- 14) Participation interest of DMG Europe Holding GmbH.
- 15) Participation interest of DMG Mori Seiki South East Asia Pte. Ltd.
- 16) Participation interest of DMG Benelux B.V.
- 17) Participation interest of DMG America Inc.
- 18) Participation interest of a+f GmbH.
- 19) Special Purpose Entity of DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bad Homburg, excluding equity share.
- 20) Special Purpose Entity of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg, excluding equity share.
- 21) Participation interest of a+f Italia S.r.l.
- 22) Participation interest of DECKEL MAHO GILDEMEISTER Ibérica S.L.
- 23) Participation interest of DMG France S.a.r.l.

**Statement of Comprehensive Income
for the period 1 January to 31 December 2010
of GILDEMEISTER Aktiengesellschaft**

	Notes	2010 €	2009 €
1. Sales revenues	16	10,563,201	11,425,458
2. Other operating income	17	13,560,659	8,169,943
		24,123,860	19,595,401
3. Cost of materials			
a) Cost of raw materials and consumables for purchased goods		80,708	296,215
b) Cost of purchased services		1,511,367	2,299,122
		1,592,075	2,595,337
4. Employee expenses	18		
a) Wages and salaries		13,804,537	8,873,322
b) Social contributions, pensions and other benefits		2,792,952	4,171,050
		16,597,489	13,044,372
5. Depreciation of tangible and intangible assets		1,613,830	1,541,786
6. Other operating expenses	19	22,822,189	18,693,261
7. Income from management and profit and loss transfer agreements	20	30,252,789	24,584,035
8. Income from investments	21	799,071	485,405
9. Other interest receivable and similar income	22	25,373,260	23,435,568
10. Expenses from the assumption of losses	23	1,306,821	8,162,815
11. Interest payable and similar expenses	24	37,946,502	23,521,858
12. Profit on ordinary activities		-1,329,926	540,980
13. Extraordinary income		1,159,152	0
14. Extraordinary expense		272,181	0
15. Extraordinary result	25	886,971	0
16. Tax on income	26	-1,521,416	2,272,653
17. Net profit (in previous year: net loss)		1,078,461	1,731,673
18. Profit carry forward from previous year		1,905,533	8,195,406
19. Net profit for the year		2,983,994	6,463,733

Statement of Financial Position
as at 31 December 2010
of GILDEMEISTER Aktiengesellschaft

ASSETS	Notes	31 Dec. 2010 €	31 Dec. 2009 €
A. Fixed Assets			
I. Intangible assets	1		
Industrial property and similar rights and values and licences to such rights and values		91,335	127,742
II. Tangible assets	1		
1. Land and buildings		19,661,562	20,262,300
2. Other equipment, factory and office equipment		3,009,965	1,964,642
3. Payments on account and construction in progress		100,639	254,879
		22,772,166	22,481,821
III. Financial assets	2		
1. Shares in affiliated companies		390,453,026	387,653,026
2. Investments		36,309,288	31,259,815
		449,625,815	441,522,404
B. Current Assets			
I. Receivables and other assets	3		
1. Trade receivables		0	24,053
2. Receivables from affiliated companies		344,051,842	311,402,127
3. Other assets		8,317,330	4,485,865
		352,369,172	315,912,045
II. Cash assets and bank balances	4	77,644,020	47,164,990
C. Prepaid Expenses	5	42,405	54,944
D. Deferred tax assets	6	13,083,402	0
E. Excess of plan assets over pension liability	7	1,504,649	0
		894,269,463	804,654,383

EQUITY AND LIABILITIES			
	Notes	31 Dec. 2010 €	31 Dec. 2009 €
A. Equity	8		
I. Subscribed capital		118,513,208	118,513,208
II. Capital reserves		83,447,597	83,447,597
III. Revenue reserves			
1. Statutory provisions		680,530	680,530
2. Other revenue provisions		165,498,830	155,532,902
IV. Net profit		2,983,994	6,463,733
		371,124,159	364,637,970
B. Provisions			
1. Pension provisions	9	13,767,905	15,645,625
2. Tax provisions	10	1,189,912	3,685,964
3. Other provisions	11	12,237,196	11,447,278
		27,195,013	30,778,867
C. Liabilities	12		
1. Borrowers' note		201,500,000	200,000,000
2. Liabilities to banks		87,729,073	80,802,344
3. Trade payables		2,379,917	2,207,225
4. Amounts owed to affiliated companies		198,078,083	120,622,119
5. Other liabilities		6,199,004	5,605,858
		495,886,077	409,237,546
D. Deferred tax liabilities		64,214	0
		894,269,463	804,654,383

**Fixed Asset Movement Schedule
as at 31 December 2010
of GILDEMEISTER Aktiengesellschaft**

ACQUISITION AND PRODUCTION COSTS

I. Intangible assets

Industrial property and similar rights and values
and licences to such rights and values

II. Tangible assets

1. Land and buildings
2. Other equipment, factory and office equipment
3. Payments on account and construction in progress

III. Financial assets

1. Shares in affiliated companies
2. Investments

Total fixed assets

DEPRECIATION

	As at 01 Jan. 2010 €	Additions €
I. Intangible assets		
Industrial property and similar rights and values and licences to such rights and values	17,384,056	63,568
	17,384,056	63,568
II. Tangible assets		
1. Land and buildings	18,469,609	1,031,490
2. Other equipment, factory and office equipment	7,552,956	518,772
3. Payments on account and construction in progress	0	0
	26,022,565	1,550,262
III. Financial assets		
1. Shares in affiliated companies	59,732,646	0
2. Investments	0	0
	59,732,646	0
Total fixed assets	103,139,267	1,613,830

	As at 01 Jan. 2010 €	Additions €	Disposals €	Book Transfers €	As at 31 Dec. 2010 €
	17,511,798	27,161	0	0	17,538,959
	17,511,798	27,161	0	0	17,538,959
	38,731,909	221,698	94,166	231,806	39,091,247
	9,517,598	1,597,801	200,911	0	10,914,488
	254,879	100,639	23,073	-231,806	100,639
	48,504,386	1,920,138	318,150	0	50,106,374
	447,385,672	2,800,000	0	0	450,185,672
	31,259,815	5,049,473	0	0	36,309,288
	478,645,487	7,849,473	0	0	486,494,960
	544,661,671	9,796,772	318,150	0	554,140,293

Disposals €	Book Transfer €	CARRYING AMOUNT		
		As at 31 Dec. 2010 €	As at 31 Dec. 2010 €	As at 31 Dec. 2009 €
0	0	17,447,624	91,335	127,742
0	0	17,447,624	91,335	127,742
71,414	0	19,429,685	19,661,562	20,262,300
167,205	0	7,904,523	3,009,965	1,964,642
0	0	0	100,639	254,879
238,619	0	27,334,208	22,772,166	22,481,821
0	0	59,732,646	390,453,026	387,653,026
0	0	0	36,309,288	31,259,815
0	0	59,732,646	426,762,314	418,912,841
238,619	0	104,514,478	449,625,815	441,522,404

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the financial position, changes in financial position and profit or loss of GILDEMEISTER Aktiengesellschaft, and the management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Bielefeld, 15 March 2011
GILDEMEISTER Aktiengesellschaft
The Executive Board



Dipl.-Kfm. Dr. Rüdiger Kapitza



Dipl.-Ing. Günter Bachmann



Dipl.-Kfm. Dr. Thorsten Schmidt



Dipl.-Kffr. Kathrin Dahnke

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the GILDEMEISTER Aktiengesellschaft, Bielefeld, for the business year from January 1, to December 31, 2010. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Berlin, 15 March 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Tonne
Auditor

Dübeler
Auditor

17 March 2011	Press conference on Financial Statements, Bielefeld
17 March 2011	Publication of Annual Report 2010
25 March 2011	DVFA-Analysts' conference, Frankfurt
05 May 2011	First Quarterly Report 2011 (1 January to 31 March)
13 May 2011	General Meeting of Shareholders at 10 am in the Town Hall Bielefeld
02 August 2011	Second Quarterly Report 2011 (1 April to 30 June)
27 October 2011	Third Quarterly Report 2011 (1 July to 30 September)
18 May 2012	General Meeting of Shareholders at 10 am in the Town Hall Bielefeld

Subject to alteration

Forward-looking statements

This report contains forward-looking statements, which are based on current management estimates concerning future developments. Such statements are subject to risks and uncertainties, which cannot be controlled or accurately assessed by GILDEMEISTER, for example, future market and business conditions. Such uncertainties arise for GILDEMEISTER, in particular, due to the following factors:

Changes in general economic and business conditions (including margin developments in key business segments and the effects of a recession); the risk of order delays or cancellations or the inability of customers to pay or that prices further decline through continued adverse market conditions by more than anticipated at that time; development of financial markets, including fluctuations in interest and exchange rates, raw material prices, debt and equity margins and financial assets in general; increasing volatility and further decline of capital markets; deterioration of conditions in the credit business and in particular, increasing uncertainties arising from the mortgage, financial market and liquidity crises, as well as the future, economic success of the core business segments in which we operate; the challenge of integrating major acquisitions and implementing joint ventures, anticipated synergy effects and other significant portfolio measures; the introduction of competing products or technologies by other companies; the risk that new products and services will not be accepted by customers targeted by the GILDEMEISTER group; changes in business strategy; the outcome of pending investigations and legal proceedings, as well as other actions taken by government agencies.

If one or more of these risks or uncertainties should materialize or the assumptions, on which these statements are based, prove incorrect, actual results may vary materially from the results, achievements or performances explicitly described or contained in these statements. GILDEMEISTER neither intends to, nor assumes any obligation to update these forward-looking statements, in order to adapt them to events or developments taking place subsequent to the end of the reporting period. Forward-looking statements are no indication of any guarantees or warranties of future developments or events described therein.

This report is available in German and English; both versions are available on the Internet for download at www.gildemeister.com. Further copies and additional information on GILDEMEISTER are available free of charge upon request.

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